

Non-Monetary Collusion, Optimal Use of Information and Task
Assignments¹

Paper under revision

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Abstract

This paper develops a theory of non-monetary collusion, where agents exchange favours. We examine the optimal use of information in a simple hierarchy. It is shown that when only the supervisor's information about the agent is used, collusion does not arise, since favours cannot be exchanged. When also the agent's information about his superior is used, collusion arises, and there is an interesting trade-off between the benefits of using additional information and the costs of collusion. We outline precise conditions under which additional information should and should not be used. Under certain conditions the principal may be better off by using less than all the available information. More generally, given that the agents collude by exchanging favours due to reciprocal monitoring, it is possible to break collusion also by hiring an additional agent whose only task is to monitor. That is, the principal breaks non-monetary collusion by optimally assigning the production and monitoring tasks so that favours cannot be exchanged. This option dominates only when the costs of hiring a new monitoring agent are low enough.

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