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Abstract

The author, using 1980-1990 data, investigates whether the sensitivity of executive compensation is related to corporate performance. The study finds only weak evidence

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evidence. Payment of an incremental 10% bonus for good economic performance is associated with a 30 to 90 basis point increase in the expected after-tax gross economic return in the following fiscal year; and payment of an incremental raise of 10% following a good stock market performance is associated with a 400 to 1200 basis point increase in expected total shareholder return.



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