

AGENT COMPENSATION AND THE LIMITS OF BONDING

B. CURTIS EATON, WILLIAM D. WHITE

First published: July 1982

<https://doi.org/10.1111/j.1465-7295.1982.tb00351.x>

Citations: 34

Abstract

Agents in positions of trust may engage in malfeasance which is difficult to detect. This paper develops a model in which employers seek to control malfeasance by paying wages contingent on imperfect monitoring and agents may be required to pay entry fees or post bonds. We conclude that entry fees which exceed agents' assets are ineffective in controlling malfeasance. As a result, conditions exist in which it is optimal to pay agents more than their opportunity cost. Such conditions lead to an excess supply of applicants and allow employers to engage in discrimination at zero cost to themselves.

References

Becker, G., and Stigler, G., "Law Enforcement, Malfeasance, and Compensation of Enforcers," *Journal of Legal Studies*, January 1974, 3, 1-18.

[Web of Science®](#) | [Google Scholar](#)

Benjamin, D. K., "The Use of Collateral to Enforce Debt Contracts," *Economic Inquiry*, July 1978, 16, 333-359.

[Web of Science®](#) | [Google Scholar](#)

Darby, M. R., and Karni, E., "Free Competition and the Optimal Amount of Fraud," *Journal of Law and Economics*, April 1973, 16, 67-88.

[Web of Science®](#) | [Google Scholar](#)

Eaton, B. C., and White, W. D., "The Economy of High Wages: An Agency Problem," (mimeo), August 1981.

[Google Scholar](#)

Goldberg, I., "Enforcement of Work Discipline: An Economic Analysis," unpublished paper, 1977 (mimeographed).

[Google Scholar](#)

Holmstrom, B., "Moral Hazard and Observability," *The Bell Journal of Economics*, Spring 1979, **10**, 74–91.

[Web of Science®](#) | [Google Scholar](#)

Jensen, M., and Meckling, W., "The Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, October 1976, **3**, 305–360.

[CAS](#) | [Web of Science®](#) | [Google Scholar](#)

Kahn, L. R., and Katz, E., *The Social Psychology of Organization*, Wiley, New York , 1966.

[Google Scholar](#)

Klein, B., and Leffler, K. B., "The Role of Market Forces in Assuring Contractual Performance," *Journal of Political Economy*, August 1981, **89**, 615–641.

[Google Scholar](#)

Kress, A., " Sound Wage Payment Policies," in M. J. Doohar and V. Marquis, (eds.) *The American Management Association Handbook of Wage and Salary Administration*, American Management Association, New York , 1950.

[Web of Science®](#) | [Google Scholar](#)

Lazear, E., "Why is There Mandatory Retirement" *Journal of Political Economy*, December 1979, **87**, 1261–1284.

[Web of Science®](#) | [Google Scholar](#)

Moore, W. E., *The Professions: Rules and Roles*, Russell Sage, New York , 1970.

[Google Scholar](#)

Parsons, T., " Professions," *International Encyclopedia of the Social Sciences*, ed., D. L. Sills, New York , MacMillan Co., 1968, **12**, 536–47.

[Google Scholar](#)

Pigors, P., and Myer, C., *Personnel Administration: A Point of View and a Method*, 8th edition, McGraw-Hill, New York , 1977.

[Web of Science®](#) | [Google Scholar](#)

Polinsky, A.M., and Shavell, S., "The Optimal Tradeoff Between the Probability and Magnitude of Fines," *American Economic Review*, December 1979, **69**, 880–891.

[Web of Science®](#) | [Google Scholar](#)

Ross, S. A., "The Economic Theory of Agency: The Principal's Problem," *American Economic Review*, May 1973, **63**, 134–139.

[Web of Science®](#) | [Google Scholar](#)

Smith, A., *An Inquiry into the Nature and Causes of the Wealth of Nations*, Modern Library, New York , 1937.

[Google Scholar](#)

Stiglitz, J., "Incentives, Risk, and Information: Notes Towards a Theory of Hierarchy," *Bell Journal of Economics*, Autumn 1975, **6**, 552–579.

[Web of Science®](#) | [Google Scholar](#)

Telser, L. G., "A Theory of Self-Enforcing Agreements," *Journal of Business*, 1980, **53**, 27–44.

[Web of Science®](#) | [Google Scholar](#)

White, W. D., "On-the-Job Screening and Investments in General and Specific Training," *Southern Economic Journal*, July 1980, **47**, 14–20.

[PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

Wood, A., *A Theory of Pay*, Cambridge University Press, Cambridge , U.K. , 1978.

[Google Scholar](#)

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)
[Training and Support](#)
[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)
[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)
[Wiley Press Room](#)

Copyright © 1999-2024 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY