Discouraging Rivals: Managerial Rent-Seeking and Economic Inefficiencies

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WORKING PAPER 4145

DOI 10.3386/w4145

ISSUE DATE August 1992

We argue here for a broader view of the biases in managers' decisions: In general, managerial rent-seeking affects not only the level of investment, but also the form. Our basic hypothesis is simple: given the now well-established scope for managerial discretion, managers have an incentive to exercise that discretion to enhance their income. Any managerial contract is subject to renegotiation, and a manager's pay is the outcome of an often bewildering bargaining process between management, the board of directors, and rival management teams or takeover artists.

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Acknowledgements and Disclosures

Citation and Citation Data

Published Versions

American Economic Review, vol. 85, no.5, pp. 1301-1312, December 1995. citation courtesy of RePEc

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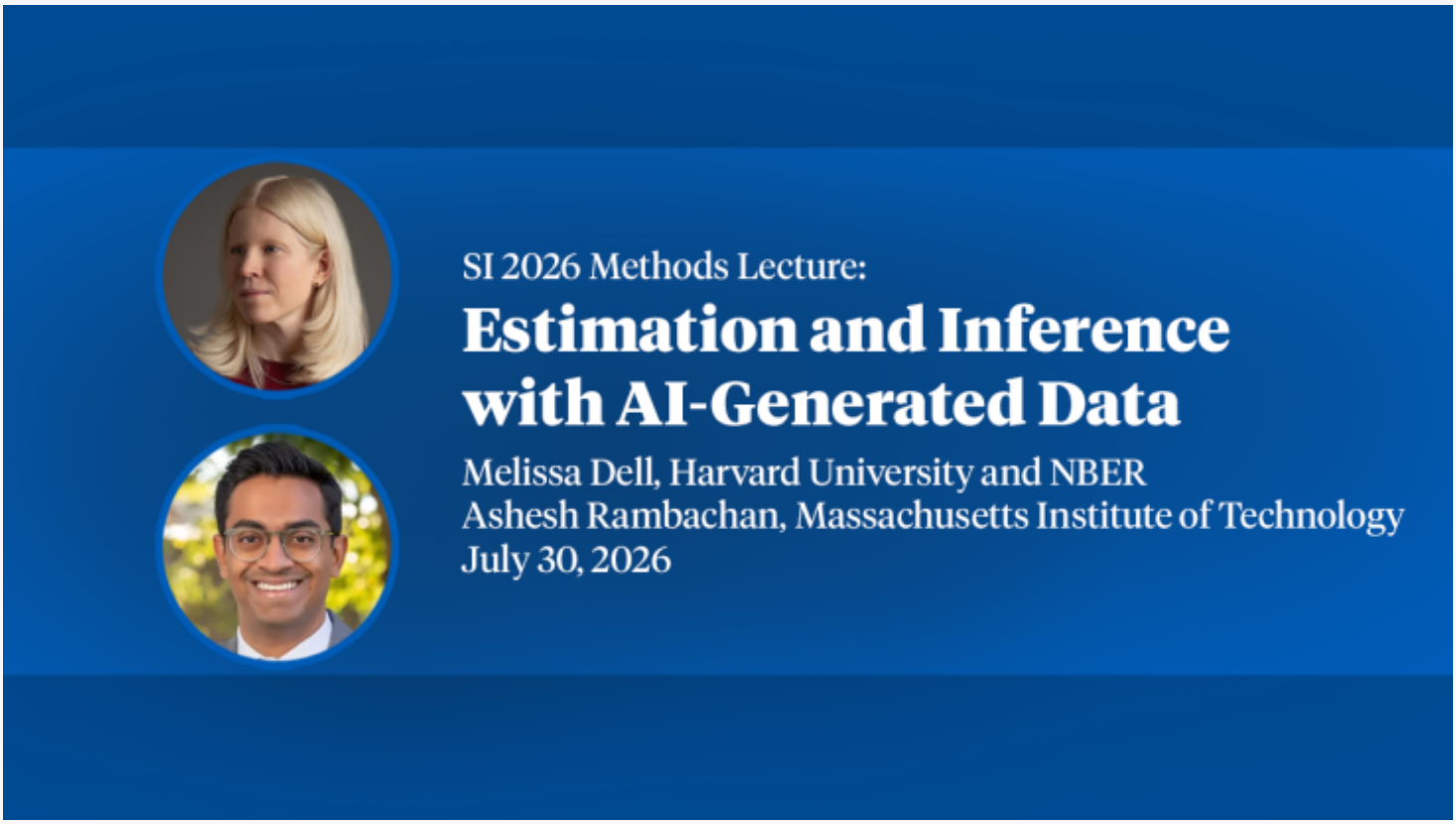


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