

# PAY TO QUIT AND TEAM INCENTIVES

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**Abstract**

This paper examines the optimal compensation scheme, job design, and severance policy for a team using a model of repeated moral hazard. In the optimal contract, the agent may be paid to quit after a poor performance. We show that a generous severance policy facilitates the adoption of team incentives and team-based production by making it cost-effective to implement peer monitoring and sanction among the agents. (JEL: D86,J65)

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