

REPUTATION WITH OPPORTUNITIES FOR COASTING

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Abstract

Reputation concerns can discipline agents and generate good outcomes. But what if outcomes are not always observed? Infrequent observation can strengthen reputation incentives and encourage effort. By exerting effort when outcomes are more likely observed, an agent can improve her reputation and gain by "coasting" on this reputation by shirking when the audience is less likely to be observing her actions. Opportunities to coast can in fact lead to greater overall effort than constant observation. We consider Markov information structures and characterize the observability structure that maximizes efficient effort. (JEL: C73, D82, L22)

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