BUILDING REPUTATION FOR CONTRACT RENEWAL: IMPLICATIONS FOR PERFORMANCE DYNAMICS AND CONTRACT DURATION

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Abstract
We study how career concerns affect the dynamics of incentives in a multi-period contract, when the agent’s productivity is a stochastic function of his past productivity and investment. We show that incentives are stronger and performance is higher when the contract approaches its expiry date. Contrary to common wisdom, long-term contracts may strengthen reputational effects whereas short-term contracting may be optimal when investment has persistent, long-term effects. (JEL: D21, D86, L14, L24)

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