AGENCY THEORY

Monitoring in Principal-Agent Relationships, by P.J. Jost

The author examines a principal-agent relationship in which the principal has the option of investing resources in monitoring the agent's behavior. Thus, the principal will trade off the costs and benefits of the additional information provided by his observation. The author studies the question of how monitoring can be used as an incentive device. Moreover, he focuses on the effect of control on risk sharing between the two parties. *Journal of Institutional and Theoretical Economics*, Vol. 147, No. 3 (September 1991), pp. 513-78. (Reprinted with permission of the *Journal of Economic Literature*).

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RISK PERCEPTION AND ECONOMIC BEHAVIOR

Variable Risk Preferences and the Focus of Attention, by James G. March (Stanford University) and Zur Shapira (New York University)

Empirical investigations of decision making indicate that the level of individual or organizational risk taking is responsive to a risk taker's changing fortune. Several nonstationary random-walk models of risk taking are developed to describe this phenomenon. The models portray a risk taker's history as the cumulated realizations of a series of independent draws from a normal probability distribution of possible outcomes. This performance distribution is assumed to have an unchanging mean and a variance (risk) that changes. The changes are seen as determined by (a) a focus of attention on 1 of 2 reference points (an adaptive aspiration for resources and the survival point) and (b) the relation between current resources and the focal point. The models are elaborated by examining the impact of adaptive aspirations and attention focus on risk taking over time in a cohort of risk takers and in a renewing population of risk takers. *Psychological Review*, Vol. 99, No. 1 (January 1992), pp. 172-83. (Reprinted with permission of the American Psychological Association, Inc.)