Theory of Contracts

Renegotiation and Optimality in Agency Contracts, by Ching-to Albert Ma (Boston University)

We analyse renegotiation in a hidden action principal-agent model. Contract renegotiation offers are made by the agent. A refinement is imposed on the principal's beliefs: if precisely one action is optimal with respect to both the principal's and the agent's contracts, the principal believes that that action has been taken. With the refinement imposed, perfect-Bayesian equilibrium allocations are identical to the second best in the classical principal-agent model without renegotiation. When renegotiation is led by the agent and when equilibria satisfy the refinement, equilibrium allocations are ex ante efficient. *Review of Economic Studies,* January 1994, 61(1) No. 206: 109-129. (Reprinted with permission of the *Review of Economic Studies.*)

Risk Perception and Economic Behavior

Agency Communication, Community Outrage, and Perception of Risk: Three Simulation Experiments, by Peter M. Sandman (Newton Centre, Massachusetts), Paul M. Miller (Rutgers University), Branden B. Johnson (New Jersey Department of Environmental Protection and Energy), and Neil D. Weinstein (Rutgers University)

Three experimental studies were conducted employing hypothetical news stories to compare the effects on reader risk perceptions of two situations: when agency communication behavior was reported to be responsive to citizens' risk concerns, vs. when the agency was reported to be unresponsive. In the first two experiments, news stories of public meetings filled with distrust and controversy led to ratings indicating greater perceived risk than news stories reporting no distrust or controversy, even though the risk information was held constant. This effect appeared clearly when the differences in meeting tone were extreme and subjects made their ratings from their recall of the stories, but it was much weaker when the differences were moderate and subjects were allowed to go back over the news stories to help separate risk information from conflict information. In the third experiment, news stories about a spill cleanup systematically varied the seriousness of the spill, the amount of technical information provided in the story, and the agency behavior and resulting community outrage. The outrage manipulation significantly affected affective and cognitive components of perceived risk, but not hypothetical behavior intentions. Seriousness and technical detail had very little effect on perceived risk. *Risk Analysis,* December 1993, 13(6): 585-598. (Reprinted with permission of *Risk Analysis.*)