

Multiperiod Contract Problems with Verifiable and Unverifiable Outputs*

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Abstract

Actual labor contracts tend to be more complicated than the simple short- and long-term contracts that often serve as the basis of previous studies in this area. This paper is the first to develop a theoretical model of multiperiod contracts that incorporates short-, medium-, and long-term contracts in the same model. In our results, we obtain different combinations of these contracts as equilibria when the efficiency of investment in human capital changes endogenously over time.

Keywords: Differing Length Contracts; Unverifiable Outputs; Unverifiable Investments; Unverifiable Ability; Hold-Up

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