

Abstract :

Due to technological progress, investment or learning, recent performance is often more informative about future performance prospects than is older performance. We incorporate information decay in a career concern model in which nonverifiable quality depends on the agent's innate productivity but the agent can invest to improve his type. In contrast with the career concerns literature (e.g. Lewis, 1986; RJE), the agent's incentives are stronger and quality is higher when the project approaches renewal date. We prove this result also in the case where performance depends on type and effort. We further show that long-term investment is crowded out by short-term effort in late contract periods, but it is boosted in early periods. More frequent contract renewals strengthen reputational effects and improve performance if the relative cost of investment is low, but otherwise longer-term contracts lead to higher quality. Our results are corroborated by some empirical studies showing that performance improves as the contract approaches renewal date.

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Elisabetta Iossa is Professor of Economics at the Department of Economics and Finance of Brunel University (since September 2004) and at the Department of Economics and Institutions of the University of Rome Tor Vergata (since October 2006). Prior to joining Brunel in 1999, she worked at the European Center for Advanced Research in Economics and Statistics (ECARES) in Brussels and at the University of Liege. Elisabetta is also a research affiliate of the Centre for Market and Public Organisation (CMPO) at the University of Bristol, of the Centre for Economic Development and Institutions (CEDI) at Brunel University and of the Einaudi Institute for Economics and Finance (EIEF) in Rome.



The Center for Research in Economic Analysis of the University of Luxembourg is pleased to invite you to the **Lunchtime Seminar in Economics:**

**Building Reputation for Contract Renewal:
Implications for Performance Dynamics and
Contract Duration**
Joint with Patrick Rey

Elisabetta IOSSA
Brunel University and University of Rome Tor Vergata

March 2, 2011
13:00 – 14:00

Campus Limpertsberg
Building of Sciences – Room BS001
162a, avenue de la Faïencerie
L-1511 Luxembourg

Lunch is planned for the participants

Registration: by email to fdef-colloques@uni.lu

