

ERE Seminar

Conference Room 4:10-5:00

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Don't Shoot the Middleman! Accounting for Social Cooperation in Homo Economicus

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Abstract

I create an inductive three-player model of Principal-Agent-Beneficiary (or Donor-Middleman-Recipient) to explain how the Agent balances conflicting roles as caring intermediary and rational thief. The Principal needs the Agent for his useful knowledge in delivering a good to the Beneficiary but must monitor him to reduce theft. The Agent's own identity reduces theft by increasing care for the Beneficiary, thereby reducing the need for monitoring in equilibrium. (Altruism can replace Identity in cases of interpersonal utility.) This model uses international aid as an example but can easily apply to environmental regulation, where the State relies on the Bureaucrat to protect the Citizen.