

Delegation and Strategic Silence

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Abstract

We consider an incomplete contracting model, in which the decision process consists of the project choice and execution effort, and investigate the optimal allocation of authority regarding project choice. Each party has an imperfectly informative private signal on the promising project and successful execution requires the agent's effort. The contractible allocation of authority may not only influence the probability that the project is promising, but also the agent's incentive to exert execution effort through his confidence that the project is promising. Then, it may be optimal to allocate authority to the party that has less precise information on the promising project. We further demonstrate that due to the agent's incentive to conceal his private information in order to learn the principal's information, informal delegation may be impossible even when the principal has no incentive to overturn the agent's proposal.

Keyword: Authority; Choice and Execution; Confidence; Empowerment; Strategic Silence

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