

COOPERATIVE INTERIM CONTRACT AND RE-CONTRACT: CHANDLER'S M-FORM FIRM

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Abstract

At an *interim* stage players possessing only their private information freely communicate with each other to coordinate their strategies. This results in a core strategy, which is interpreted as an equilibrium set of players' alternative type-contingent contract offers to their fellows. From this set of offers each player then chooses an optimal one and engages in some subsequent action, thus possibly revealing some private information to the others. Now with new information thus obtained from each other, the players play a new game to re-write their contract. In all of the optimization and gaming just described, Bayesian incentive compatibility plays a central role. These ideas are formulated within a model of a profit-center game with incomplete information which formally describes interaction of the asymmetrically informed profit-centers in Chandler's multidivisional firm.

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