Contracting in the Wine Supply Chain with Bilateral Moral Hazard, Residual Clemency and Multi Tasking

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Abstract

This paper takes a quasi-case-study approach to stylized wine industry facts to assess predictions about the optimal sharing rule from a principal–agent model with residual clemency. An optimal sharing contract is developed between a grape grower and a winery, when a risk-averse grower allocates efforts among multiple activities that differ in measurability, while double-sided moral hazard is assumed to be present. Several comparative static results regarding the Pareto optimal share are in line with certain production practices and properties of observed contracts that are found in markets where residual clemency is used, namely in Australia, California, New Zealand and France.

Keywords: incentive contract, residual clemency, wine, double-sided moral hazard, multi-tasking, supply chain

JEL classification: L22, M31, D23