

Expected income or the wage, y, w

$$\hat{y}(\bar{\Delta})$$

Better for owner

$$w^c$$

u_2

u_1

$$w^c = \hat{y}(\Delta) - \rho \cdot k - m$$

Feasible combinations
of expected income and risk
when paying for monitoring

$$\hat{y}(\Delta) - \rho \cdot k$$

Monitoring costs, m

g

f

Δ

Risk, Δ

