

Expected income or the wage, y, w

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

$$w^c$$

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

Monitoring costs, m

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

Feasible combinations
of expected income and risk
when paying for monitoring

$$\bar{\Delta}$$

Risk, Δ

