

Figure 10.19. Principal-agent problems: The credit market and the labour market.

| | <i>Actors</i> | <i>Conflict of interest over:</i> | <i>Enforceable contract covers</i> | <i>Left out of contract (or unenforceable)</i> | <i>Result</i> |
|-----------------------------------|----------------------|---|------------------------------------|---|--|
| Labour market (Unit 6) | Employer Employee | Wages, work (quality & amount) | Wages, time, conditions | Work (quality and amount), duration of employment | Effort under-provided; unemployment |
| Credit market (Unit 11) | Lender Borrower | Interest rate, conduct of project (effort, prudence) | Interest rate | Effort, prudence, repayment | Too much risk, credit constraints |