**Report on “An Introduction to Other-Regarding Preferences With an Application to Contract Design”**

This paper reviews a new perspective on preference model that has shown promising results. The paper is well structured but it has small errors in sections 1 to 4. Section 5 and the appendix need major changes. If the author is willing to make these changes, I think the paper should be accepted for publication

**Comments**

* Page 4, second paragraph- The author wrote “… with stakes that between 60…” and should have written “… with stakes that are between 60…”
  + **ACCEPTED**
* Page 5, footnote 2- The meaning of the first statement is not clear
  + **ACCEPTED -** *“The public goods game is one where the subjects must decide how many tokens to contribute to a public good whose payoff will be equally distributed amongst all subjects and that is higher than the initial endowment”*
* Page 6, end of the fifth paragraph- In the statement “That is, the proposer offers more than he would otherwise have offered…”, the author should make clear that he is referring to the ultimatum game (note that the previous statement is about the dictator game).
  + **ACCEPTED**
* Page 9, first line- The author should state that the utility function is increasing in w and decreasing in e.
  + **DECLINED –** Obvious given the context.
* Page 25, The ultimatum Game- The author assumes in his analysis that the amount available to share equals 1 but he does not state so.
  + **DECLINED –** It is not the nominal amount that is being referenced, but the share of it. Given that it deals with the share of it, it follows that the full amount equals 1.
* Page 26, first line- It is not clear what sc is. I assume that it is the value of s that makes the last inequality in the previous page binding, but the author did not write it.
  + **DECLINED -** S\_c is defined in the Lemma.
* Page 26, first line- α should be replaced by α2.
  + **ACCEPTED**
* Page 26, Proposition 1- The author implicitly assumes that this is a complete information game (that is, both player’s payoff functions are common knowledge), and he should state this clearly. Proposition 1 rests on the assumption that the proposer knows sc, which implies that he must know α2.
  + **ACCEPTED –** Though note that it is more likely that the proposer has an heuristic for what sc is rather that knowing what α2 is and then calculating the critical share, i.e., it learns what critical share that is considered fair through trial and learning in multiple interactions in multiple contexts with other people. Also, bounded rationality.
* Page 28, Bonus Contract- There must be another difference between this contract and the Trust Contract: e must be verifiable. Otherwise, the bonus could not depend on e.
  + **DECLINED –** What makes the trust and bonus contract different from the incentive one is not that e is verifiable by the Principal but that in the latter there is a verification technology that provides hard evidence that can be presented to a third party for arbitration purposes. That is, in all contracts the Principal is able to observe how much effort is being put by the agents, but only in the incentive contract can he present to a third party more than his own word about it. So the difference between the bonus and trust contract is not that in one the effort is verifiable and the other isn’t but that in the bonus contract the Principal does something when e > e\_min.
* Page 28, third paragraph- The condition holds only for a risk-neutral agent. The author should note that the payoff the agent gets depends on whether the agent is caught shirking or not.
  + **ACCEPTED**
* Page 30, 2 lines below equation 9- The author should have written “… principal are higher…” instead of “…principal is higher…”
  + **ACCEPTED**
* Page 30 and 31, Analysis of the Incentive vs. trust contract:

1. The author uses the payoff functions u and π, but he stated, previously, that the payoff functions were U and Π, which renders all the analysis incoherent.
   1. **ACCEPTED –** Changed E(Π) with E(π) to make it more clear. Do note that the FS preferences only act in the other-regarding preferences and do so in a way that makes u = π so there is no inconsistency in using both payoff functions.
2. There is no participation constraint. Is the author assuming that the value of the outside option for the agent is zero? If this is the case, he should state that clearly.
   1. **ACCEPTED**
3. The author uses f for the penalty in the analysis. He should have used (the principal chooses to impose the maximum possible penalty) and this penalty must not exceed w.
   1. **DECLINED –** The penalty f is a parameter that is chosen by the principal such that it is higher than 0 and less than or equal to the maximum fine previously specified in the contract offered. Nowhere in this specification does it say that the principal must always choose the maximum fine.
4. The author did not prove that the expected payoff for the firm, in equation (11) is positive (i.e., the firm is willing to offer a contract).
   1. **DECLINED –** Under this specification nothing guarantees that the expected payoff is positive. For example, for a very high technology cost the expected payoff may indeed be negative. Indeed the idea is that there are situations for which the principal is better of by choosing to use a bonus contract.

* Appendix:

1. The analysis is valid only for with . Otherwise, the initial relation between monetary payoffs (xa>xb) may change, and we get envy instead of altruism.
   1. **ACCEPTED,** though it’s common practice to use ε as an infinitesimal
2. The cost of reducing the principal’s payoff incurred by the agent (γ) makes no sense. The agent reduces the principal payoff by shirking. Thus, there is, in fact, a benefit of reducing the principal’s payoff.
   1. **DECLINED**
      1. If, as the reviewer argues, there is no cost to shirking then γ = 0 < 1 and the agent will indeed punish the principal, as the derivation intends to show.

* The citations and bibliography should be completely revised according to Notas Económicas guidelines.