

MF921 Topics in Dynamic Asset Pricing

Week 3

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Background

Intermediary (Hedge Fund Firm, Law Firm, Consulting Firm...). Agent (Fund Manager, Lawyer, Consultant...). Client (Looking for services)

- 1): The agent is hired by the intermediary and provides services to clients indirectly. The intermediary charges the clients and pays wages to the agent.
- 2): The agent contracts directly with clients and provides services. The clients pay the agent.

Note: Everyone learn from the historical services outcomes. Intermediary knows more about the agent than the clients. Clients do not observe agent's compensation but do observe if agent is retained.