Clarifications for
“Optimal Contracts for Experimentation”

Marina Halac        Navin Kartik        Qingmin Liu

March 3, 2017

We would like to make two clarifications/corrections regarding our paper “Optimal Contracts for Experimentation,” Review of Economic Studies July 2016.

1. Theorems 3 and 5 implicitly assume the low type is not excluded, i.e., $\bar{t}^L \geq 1$. Take Theorem 3 (pp. 1051–52): were $\bar{t}^L = 0$, then part 2 would have $W_0^L = 0$; part 3 would have no information rent for type $H$ (i.e., $U_0^H(C^H, \alpha^H(C^H)) = 0$); and the latter two statements in part 4 concerning $\alpha^L(C^L)$ and $\alpha^H(C^L)$ would be moot. Analogous points hold for Theorem 5 (pp. 1061–62).

2. In the Supplementary Appendix, Theorem 8 (p. 8) again implicitly assumes the low type is not excluded, i.e., $\bar{t}^L_{\ell\ell} \geq 1$. Furthermore, part 3 should say “If $\bar{t}^L_{\ell\ell} > 1$ ...”. When $\bar{t}^L_{\ell\ell} = 1$, there is no rent for type $L$ (i.e., $U_0^L(C^L, \alpha^L(C^L)) = 0$) because in our model success cannot be obtained without effort. Under limited liability, the low type’s rent comes from the dynamic agency effect, which requires $\bar{t}^L_{\ell\ell} > 1$. When $\bar{t}^L_{\ell\ell} = 1$, the principal can induce the low type to work without paying him a rent by offering a bonus of $c/(\beta_0\lambda_L)$ in the low-type contract’s only period.