

# Clarifications for “Optimal Contracts for Experimentation”

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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.,  $U_0^H(\mathbf{C}^H, \boldsymbol{\alpha}^H(\mathbf{C}^H)) = 0$ ); and the latter two statements in part 4 concerning  $\boldsymbol{\alpha}^L(\mathbf{C}^L)$  and  $\boldsymbol{\alpha}^H(\mathbf{C}^L)$  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.,  $\bar{t}_{\ell\ell}^L \geq 1$ . Furthermore, part 3 should say “If  $\bar{t}_{\ell\ell}^L > 1 \dots$ ”. When  $\bar{t}_{\ell\ell}^L = 1$ , there is no rent for type  $L$  (i.e.,  $U_0^L(\mathbf{C}^L, \boldsymbol{\alpha}^L(\mathbf{C}^L)) = 0$ ) 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  $\bar{t}_{\ell\ell}^L > 1$ . When  $\bar{t}_{\ell\ell}^L = 1$ , 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.