

ENDOGENEITY OF CEO COMPENSATION AND CORPORATE CRIME

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ABSTRACT. We model costly interactions (contracts) between managers and investors. We suggest that globalization of production and favorable technology shock of the 1990s altered economic environment of manager-investor interactions. These changes exacerbate agency conflict due to the increased managerial gains from *ex post* renegeing, and, simultaneously, decreased costs of managerial renegeing. In this case, the managerial share of surplus increases at investor expense.

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