On Watson’s Non-Forcing Contracts and Renegotiation

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Abstract. Watson (2002) proposes non-forcing contracts as a way to show the limitations of the mechanism design program with ex-post renegotiation (Maskin and Moore (1999)). If one takes a partial implementation approach, as Watson does, we show that non-forcing contracts do not constitute an intermediate paradigm between implementation with no renegotiation and with ex-post renegotiation. Moreover, taking a full implementation approach, non-forcing contracts fail if and only if one goes outside of the constraints identified by Maskin and Moore, because of the appearance of undesirable equilibria.

JEL classification numbers: C70, D74, K10.
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