## **Stable Contracts under Renegotiation**

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## Abstract

We consider a principal contracting with a privately informed agent. Any contract is subject to renegotiation. Instead of modelling a specific renegotiation game, we extend the notion of von Neumann–Morgenstern stability to incorporate private information. We identify stable outcomes that will not be renegotiated and allow the principal to optimize among mechanisms that lead to such stable outcomes. The resulting solution concept provides an effective and easy-to-use tool for analysing contract design with renegotiation. We apply the solution concept to a setting with nonlinear contracts. The principal's optimal stable outcomes are pooling contracts that satisfy a no-distortion-at-the-bottom property.