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“Designing Delegation: An Experimental Analysis”

**Abstract:** Delegating decision-making power from an uninformed principal to an informed party is a powerful tool for generating efficiency. However, while delegation expands the total surplus, principals who grant too much autonomy risk reducing their own share of the pie. Recent theoretical advances identify constrained delegation as the optimal mechanism from the principal's point of view in a bargaining setting. Here, the principal designs clear limits on the informed agent's choice set, balancing efficiency gains with rent extraction. But can behavioral principals effectively utilize such complex design tools? We examine this question through a series of experimental treatments comparing constrained delegation to standard take-it-or-leave-it bargaining. We find that constrained delegation drastically increases efficiency compared to bargaining. However, our results reveal that a significant portion of the efficiency gains stems from the principals' failure to optimize. Specifically, behavioral principals tend to "over-delegate" relative to theory, granting agents more discretion than optimal.