

Progressive managerial bonuses in a spatial Bertrand duopoly

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Abstract

The relationship of managerial bonuses and profit maximization is interesting both from an economic and a managerial viewpoint. On one hand, we see that using an adequate compensation scheme, the owner can commit themselves to a market strategy which can increase their profits, compared to results achieved through direct profit maximization. Secondly, it can serve as a guideline for the comparison of different compensation plans. Our contribution is showing that progressive managerial bonuses can increase profits in a spatial Bertrand competition, and furthermore they can help collusion.