Modelling limited liability

Ivar Ekeland (Université Paris-Dauphine)

Limited liability is ubiquitous in our society: managers do not carry the losses, investors and shareholders do. So how are we to expect that the managers will act in the best interests of investors and/or shareholders ? This is known in economics as the moral hazard problem. It was considered intractable until a few years ago, when Sannikov found a way to frame it as a stochastic optimal control problem. I will describe Sannikov's method and the rich field of work that has developed since.