

**Department of Economics
2025-2026
Seminar Series**



Monday, September 22, 2025
12:30 PM - 1:50 PM
SBS, Room N603

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Rationalizable Contracts and Unawareness

Abstract: We analyze a principal-agent procurement problem in which the principal (she) is unaware of some of the marginal cost types of the agent (he). Communication arises naturally as some types of the agent may have an incentive to raise the principal's awareness (totally or partially) before a contract menu is offered. The resulting menu must not only reflect the principal's change in awareness, but also her learning about types from the agent's decision to raise her awareness in the first place. We take a rationalizability approach in which marginal beliefs over types are restricted to log-concavity, "reverse" Bayesiansism, and a mild assumption of caution.

We show that if the principal is ex ante only unaware of high-cost types, all of these types have an incentive raise her awareness of them—otherwise, they would not be served. With 3 types, the two lower-cost types that the principal is initially aware of also want to raise her awareness of the high-cost type: Their quantities suffer no additional distortions, and they both earn an extra information rent. Intuitively, the presence of an even higher cost type makes the original two look better. However, with more than 3 types, it is possible for a type that the principal is initially aware of to find himself no longer being served after raising awareness about higher-cost types—in which case the intuition breaks down and raising the principal's awareness could cease to be profitable in the first place. When the principal is ex ante only unaware of more efficient (low-cost) types, then no type raises her awareness, leaving her none the wiser.

All in-person seminars will be held in the Social and Behavioral Sciences Building, Room N603. For additional information, contact the seminar organizers: Profs. Jonathan Becker and Lorenz Ekerdt. Visit our webpage for additional information: stonybrook.edu/economics.

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