

COMMUNICATION OR CONTROL

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ABSTRACT. A principal can choose to directly control an agent's action via a contract or to indirectly steer the agent's action by giving a cheap talk recommendation. Our contracts take the simple form of a finite menu of instructions; as part of a contract, these instructions can be enforced. Once the contract is written, the principal learns the state and thereby her ideal action. She then has the choice to rely on the contract to enforce one of the pre-specified instructions, or to communicate to induce the agent to take an action. We find that equilibria induced by optimal contracts are monotonic and partitional, and that any two neighboring instructions define a 'topic' in which an independent communication game can be played. In the uniform-quadratic specification, our main characterization result shows that topics are of similar size. Thus contracts can be used to structure and facilitate communication.

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