**Bharat Sarath,** Rutgers University, *Optimal Contracts Under Intra-Shareholder Conflicts*

**Abstract**

The goal of this paper is to understand the effects of intra-shareholder conflicts on optimal contracts in the behavioral model developed in Bolton, Schenkman and Xiong (2006). Their paper examines a framework where short-term investors have control over setting the managers compensation contract resulting in incentive contracts that lead to price inflation. This paper extends the framework to a setting where there are two shareholder types. In such a setting, there is no agreement on the second-best contract that maximizes payoffs for every shareholder type and any contract is suboptimal for some subset of shareholders. Assuming that the board is selected with some random noise from the two groups of shareholders and that the contract is set optimally by the majority shareholder type on the board, we derive some interesting implications regarding the probability of price inflation and the welfare loss resulting from the intra-shareholder conflict.