

Experimentation, Private Observability of Success, and the Timing of Monitoring

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Abstract

This paper examines the role of monitoring in experimentation when agents may observe success privately and therefore delay announcing success. In the benchmark model without monitoring, private observability of success is inconsequential as we show that the agent never wants to delay announcing success. However, with monitoring of the agent's effort, private observability of success plays a role in choosing the optimal time for monitoring. When success is observed publicly, the optimal time for a principal to hire a monitor is at the start of the relationship. On the contrary, if the agent observes success privately, and the discount factor is high enough, monitoring is performed during the final period.