

HKUST ECON Seminar

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Optimality of Two-tier Quotas in Selection

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Abstract:

We study delegated selection under unverifiable assessments and distributional monitoring. A principal must allocate scarce capacity across labeled objects, while an informed agent privately observes quality and may be biased. Although object-level reports are unverifiable, the principal can audit whether reported quality distributions within each label match known conditional distributions. We characterize incentive compatibility through a comonotonicity condition linking the selection rule to the agent's payoff. Under this constraint, an optimal mechanism is implementable by label-specific two-tier quotas, consisting of a deterministic tier and a gray-zone lottery tier. Randomization is optimal when marginal delegation is sufficiently misaligned, so that the principal's payoff from deterministic delegation is locally convex. Across labels, the usual intuition need not hold: less biased labels receive more quota only under utilitarian preferences and when capacity is sufficiently scarce. This yields a qualified ally principle.