



Chapter 15.3

Misrepresentation of trading outcomes

Outline

- Problem and model assumptions
- Incentives for traders
- Incentives for managers
- Equilibrium outcome
- Summary

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Hiding losses and reporting profits

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- ▶ Auditing reduces misrepresentations directly, but also reduces **monitoring efforts**

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- ▶ The incentives of higher remuneration for managers after misrepresentation lead to **limited monitoring**, allowing misrepresentations to occur

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- ▶ Managers are **complicit** in such behaviour as they benefit, too

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- ▶ Misrepresentation of trading outcomes is inevitable
- ▶ The incentives of higher remuneration for managers after misrepresentation lead to limited monitoring, allowing misrepresentations to occur
- ▶ Managers are complicit in such behaviour as they benefit, too



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