

# CONTRACT DYNAMICS WHEN MORAL HAZARD COMPROMISES TRANSPORTATION SERVICES FOR PEOPLE WITH MENTAL DISORDERS AND PHYSICAL DISABILITIES

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## Abstract

People with mental or physical disabilities are generally at higher risk of poverty and social exclusion. Guaranteeing their mobility is essential for improving their participation in society. The responsibility of managing and organizing their urban mobility generally lies with the local governments, which may delegate these tasks to private agents who operate strategically. Apart from the remuneration offered by the principal, the agent's effort determines the success probability of the trip under conditions of information asymmetry and uncertainty. We apply the framework of incentive contract theory to examine optimum contract conditions for all parties involved. Our results suggest the possibility of different contracts depending on the complexity of the disease. Reducing agent's opportunistic behaviors necessitates a "compromise contract", which tries to limit moral hazard, increasing the reimbursement values and leading to higher costs for the principal. A counterintuitive result for policy-making, is that the budget problem does not arise for users facing particularly serious conditions.

Keywords · Economic incentives, Moral hazard, Information asymmetry, Contracts, Urban transportation, Management, People with disabilities.