

A behavioural principal-agent theory to study corruption and tax evasion

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Abstract: The essay is focused on further development of the Principal-Agent Theory (PAT), a theory that can serve as a useful and at times powerful framework for detecting corruption and tax evasion. To widen and deepen the analysis of these crimes, it is useful to refer to the findings of behavioral economics. These findings depart from the classic view of traditional economics, a paradigm which states that individuals are driven only by their economic interests. First of all, regarding the topic of corruption, the first section of this essay will explore the agent behaviors that are affected by cognitive biases including: a misperception of risks, contexts and others. In the second section, the part regarding the subject of tax evasion, this essay will illustrate the client behavior, focusing both on the role of tax morale and on specific biases and heuristics including but not limited to: tax-evasion, framing, myopia, and salience. Finally, the essay will provide some suggestions of value to the principal, including a look at a few of the positive and negative aspects of the behavioral approach.

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