

# **Interlinked Contracts and Moral Hazard in Investment**

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## **Abstract**

In agricultural tenancy arrangements, the tenant is often required to undertake effort aimed at maintaining and improving the productive stock. This paper investigates the design of contracts which induce optimal investment of such effort. It is found that a long-term contract which interlinks tenancy with a credit agreement is optimal. In equilibrium the tenant obtains credit from the landlord at a rate of interest below the market, and is perpetually indebted to the landlord.