## A.N. Shiryaev and Contemporary Probability Theory



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## Moral hazard and second order backward SDEs

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We consider a general formulation of the Principal-Agent problem with a lump-sum payment on a finite horizon. Our main result is a reduction of this problem to a standard stochastic control problem, so that the principal's problem is solved by the standard tools of control theory. Our proofs rely on the Backward Stochastic Differential Equations approach to non-Markovian stochastic control, and more specifically, on the recent extensions to the second order case.

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