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"Profit-Maximizing Pirates"

Abstract

This paper applies economic theory to the institutions of pirates by utilizing game theory in both a static and repeated game setup. The model extends on the description of contracts during the heyday of pirates by Leeson (2009) by formalizing and further specifying the incentives at play in combat. In particular, incentive-corrective measures in the form of disability pay and pay-exclusion can be implemented to avoid shirking and consequently maximize the outcome of battles. The analysis thus relates to the design of pay schemes in today's profit-maximizing entities.