

# Commitment, Flexibility, and Optimal Screening of Time Inconsistency

Simone Galperti\*

Northwestern University

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## Abstract

I study the optimal supply of flexible commitment devices to people who value both commitment and flexibility, and whose preferences exhibit varying degrees of time inconsistency. I find that, if time inconsistency is observable, then both a monopolist and a planner supply devices that enable each person to commit to the efficient level of flexibility. If instead time inconsistency is unobservable, then both face a screening problem. To screen a more time-inconsistent from a less time-inconsistent person, the monopolist and (possibly) the planner inefficiently curtail the flexibility of the device tailored to the first person, and include unused options in the device tailored to the second person. These results have important policy implications for designing special savings devices that use tax incentives to help time-inconsistent people adequately save for retirement.

**KEYWORDS:** Time inconsistency, self-control, commitment, flexibility, contracts, screening, unused items.

**JEL CLASSIFICATION:** D42, D62, D82, D86, D91, G21, G23.

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\*Department of Economics, Northwestern University, Evanston, IL 60208 (E-mail: [simone-galperti2008@u.northwestern.edu](mailto:simone-galperti2008@u.northwestern.edu)). I am indebted to Eddie Dekel and Alessandro Pavan for many, long, and fruitful discussions that greatly improved the paper. I also thank Gene Amromin, Stefano DellaVigna, Roland Eisenhuth, Jeffrey Ely, William Fuchs, Garrett Johnson, Botond Koszegi, David Laibson, Santiago Oliveros, Jonathan Parker, Nicola Persico, Henrique Roscoe de Oliveira, Todd Sarver, Ron Siegel, Bruno Strulovici, Balazs Szentes, Rakesh Vohra, Asher Wolinsky, Michael Whinston, Leeat Yariv, and seminar participants at Northwestern University, New York University, UC Berkeley, EEA-ESEM 2012. I gratefully acknowledge financial support from the Center of Economic Theory of the Weinberg College of Arts and Sciences of Northwestern University. All remaining errors are mine.