

# Commitment, Flexibility, and Optimal Screening of Time Inconsistency

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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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