

**BUYER-SUPPLIER CHAIN COORDINATION BY COMMON-KNOWLEDGE**

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**ABSTRACT**

Issues of moral hazard and adverse selection abound in each and every contract where one has a self interest and information that the other party does not possess. While this is a fertile research area, there is still need for more information on how you handle a party to a contract with more information than you. The moral hazard is very often the bottleneck in buyer-supplier cooperation, and the buyer and suppliers management is an epitome. This paper re-examines the issue in the buyers-suppliers cooperation with moral hazard by the framework of a principal-agent model under uncertainty. It highlights epistemic conditions for a possible resolution of the moral hazard between the buyer and the suppliers. For removing out such moral hazard in the buyer-supplier cooperation as above our recommendation is that the buyer and suppliers should commonly know their beliefs on the others' effort.

Keywords: *Buyer-Supplier coordination, Communication, Principal-agent model under uncertainty, Moral hazard, Expected marginal costs*