ABSTRACT
This paper presents a two period agency model of stock-price-based managerial compensation with limited commitment to contract terms. Stock price is informative of the uncertain payoff from the manager's long-term effort, but also incorporates signals that are relevant for firm valuation but irrelevant for gauging managerial effort. The paper shows that a more informative stock price can reduce the manager's long-term effort as it facilitates the firm owner to capture more of the resulting return through renegotiated wages (i.e., the manager is held up). As the stock price becomes a more accurate forecast of the future cash flows, the equilibrium firm profit may decrease and diverge from the manager's equilibrium efforts.