# Reciprocity in Dynamic Employment Relationships

This paper explores how the norm of reciprocity shapes relational contracts. Developing a theoretical model of a long-term employment relationship, I show that reciprocal preferences are more important when an employee is close to retirement. At earlier stages, direct incentives provided by the relational contract are more effective because more future rents increase the employer's commitment. Generally, a combination of direct and reciprocity-based incentives is optimal in a dynamic incentive scheme. I also show that more competition can magnify the use of reciprocity-based incentives. Moreover, I demonstrate that, with asymmetric information on the employee's reciprocal preferences, an early separation of types is mostly optimal. Then, the employer might benefit from not knowing the employee's type.