

First Order Condition:

$$\frac{3\eta^2 v}{2c} - \frac{3\eta^2 w_S}{c} = 0.$$

Solving for  $w_S$ , we get  $w_S = \frac{v}{2}$ .

Conclusion: In the unique SPE, the wage contract offered is  $(w_S, w_F) = (\frac{v}{2}, 0)$  and effort is  $\hat{e} = \frac{3\eta v}{4c}$ .

NOTE, the SPE effort is less than first-best effort.