

Social Norms, Communication, and Community Enforcement

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ABSTRACT

This paper studies communication in repeated matching-games with perfect private monitoring. Outcomes are made public by simultaneous announcements after the stage game is played. The question is whether communication produces the informational accuracy needed for the Folk theorem to apply. By modeling communication as a 2-stage process where players make announcements and then interpret announcements, it is shown that in games with a one-sided incentive problem and in some games with a two-sided information problem no credible punishments have to be implemented in order to give players an incentive for truth-telling. Compared to the case of exogenous information transmission, no additional punishments have to be implemented under endogenous information transmission.

Consider a random-matching game in which outcomes are observed by the matched players only. Outcomes are made public by simultaneous announcements. Given this setup, players know that one player's announcement is deceptive if announcements contradict each other. For example, player j says that i cheated, and i says that she did not. When communication is limited to make announcement (as it is done in the current literature on communication in repeated games with perfect private monitoring, see for example Ben-Porath and Kahneman 1996), players have no way of expressing whether they believe that i did not cheat and i says so but j says she did cheat (slander) and the situation where i did indeed cheat and j says so but i says she did not cheat (false denial) in the game. Thus, the combination of announcements of the two players cover two possible realities which players are not able to distinguish when communication is modeled as a one-stage process only. However, if players are allowed to choose one of those interpretations for the continuation of the game, they actually may get it right. It is shown that in games with a one-sided incentive problem and in some games with a two-sided information problem there is a simple interpretation-rule that removes players' incentive to make deceptive statements.

Reference:

Ben-Porath E., and Kahneman, M. (1996): "Communication in Repeated Games with Private Monitoring", *Journal of Economic Theory*, 70, pp. 281-97.