Microeconomics seminar Tuesday September 11, 12:45 - 14:00 pm:

## **Dilip ABREU (Princeton University)**

## "Reputational Values for Dynamic Games" joint with David Pearce

## ABSTRACT

This talk explores how reputational perturbations serve to identify unique equilibrium outcomes in a variety of two player dynamic games with equally patient players. The unperturbed variants of these games typically have a vast multiplicity of equilibria. Among the games considered are a general class of stochastic games. The characterization for this class entails extending the definition of "Nash Bargaining with Threats" (Nash, 1953) to a stochastic game setting. This extension is of independent interest. The solution involves a natural balancing of the relative potential of players to harm their opponents and benefit themselves in terms of flow state-payoffs and (possibly endogenous) transition probabilities and the interaction of the latter with the frontier of efficient payoffs. The emphasis is on environments in which contract signing is possible. However, we conjecture that the analysis can be extended to non-contractual settings. Such an extension is already available for the purely repeated case.