Inefficient Concessions and Mediation

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- Removes need for inefficient concessions

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Mediator removes uncertainty about partner's δ

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- Information is about ability to commit, not resolve

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Stage Game

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	Trust	Fight
Trust	T, T	-D, T+W
Fight	T+W,-D	W-D, W-D

where

- $T \geqslant 0$: Benefit from the other country playing Trust
- $W \geqslant 0$: Additional benefit from playing Fight
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- Social welfare measured as sum of high types' expected utilities

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- Pool on 'Fight'
- Separating through concessions
- Separating without concessions

Pooling Equilibrium

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From period 1 on, playing fight in all periods is the only sequentially rational strategy for low types regardless of their beliefs of the other country's type and strategy.

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- This equilibrium can always be chosen by both types

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$$U_h(POOL) = \frac{1}{(1-\delta_h)}(W - D)$$

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$$g \geqslant pT + pW - pW - pD + p\frac{(W - D)}{1 - \delta_l} - p\frac{(W - D)}{1 - \delta_l}$$

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- Effect comes in part through change in minimum separating concession
- High-type utility may increase or decrease from the benchmark case

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- If δ_l is low, concession has to be large to deter low type from from mimicking high type

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Theorem 5

A mediator restores peace where concessions' future welfare impact destroys it and eliminates inefficient concessions elsewhere.

Modified Stage Game Payoffs

	Trust	Fight
Trust	$T(s_2+\alpha_2 g_1)$, $T(s_1+\alpha_1 g_2)$	$-D(m_2+(1-\alpha_2)g_1)$, $T(s_1+\alpha_1 g_2)$ $+W(m_2+(1-\alpha_2)g_1)$
Fight	$T(s_2+\alpha_2 g_1)$ $+W(m_1+(1-\alpha_1)g_2)$, $-D(m_1+(1-\alpha_1)g_2)$	$W(m_1+(1-\alpha_1)g_2)$ $-D(m_2+(1-\alpha_2)g_1)$, $W(m_2+(1-\alpha_2)g_1)$ $-D(m_1+(1-\alpha_1)g_2)$

Back to Burning money unattractive.