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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1–∞. Countries engage in a simultaneous Prisoners' Dilemma interaction

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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- The smallest concession is $c_l^{-1}\left(p(T+D)\right)$
- If p is low, high types are better off in the 'fight' pooling equilibrium

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Allow giver of concession to also choose $0 \leqslant e \leqslant 1$, where benefit of concession is eg

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- The benefit appears in the high type's expected utility

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- Conjecture: Pooling on 'Fight' optimal over larger set of parameters

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Theorem 5

A mediator can eliminate inefficient concessions.

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 Concessions can hurt the giver.