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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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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- Pool on 'Fight'

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- The smallest concession is $p(T+D)$
- If p is low, high types are better off in the 'fight' pooling equilibrium

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

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When the low type country can use concessions to reduce the payoffs of its negotiating partner during a 'fight' stage (i.e. $\alpha_L < 1$), there are parameters under which the separating-through-concessions equilibrium features inefficient concessions.

Modified Payoffs

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- If p is low, concessions likely to be used against you, so remove material value

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- High-type utility may increase or decrease from no-material-value case

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Theorem 6

A mediator restores peace where $\alpha_i < 1$ destroys it, eliminates inefficient concessions, and reduces the threshold δ_h for high types.

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.