

Intro re-write

- Now my short punishments don't rest on renegotiation
  - So now, for main analysis, must assume that we're constraining attention to a certain class of punishments: symmetric, and "Punish for  $T$  periods then go back to cooperation"
  - Can I show that mine are optimal in this class?
- New section on asymmetric punishments (addresses, in part, Giovanni's #7)
  - Constrain to  $T$ -period class, now asymmetric—punish deviator more
  - There is literature on this (see new-lit.tex)
    - \* Bown 2002/2004: I don't think there's any reason to constrain to reciprocal "legal" punishments
    - \* Martin and Vergote: timing. But I don't think their contemporaneous is realistic. They have the same welfare level in punishment, just redistributed across players
    - \* Hungerford 1991: one country retaliates for past defection (?)
    - \* Bagwell (2008): commensurate vs. disproportionate retaliation
      - disproportionate retaliation can compensate trading partner, who otherwise loses trade volume
      - here, degree of disproportion increases in size of original violation: has to compensate for larger trade volume loss (p.15 of pdf)
    - \* Cotter and Mitchell (1997): different punishments for each country
  - In this setting, you can achieve lower  $\tau^a$  with asymmetric
- Editor point 2: when determining  $\bar{e}$ , I need to take into account that  $\tau^b$  depends on  $\bar{e}$ 
  - It is true that the severity of the punishment for deviating does not depend on  $\tau^b$ , and that this means that  $\tau^b$  will maximize current payoff (actually, continuation value?). So clearly  $\tau^b$  is a function of  $e^b$
  - Need to explain mechanics of  $\bar{e}(\tau^B)$  relationship MUCH better
    - \* Make Corollary 1 into Lemma 1 just before Result 1; add new Lemma 2; old Lemmas 1 and 2 renumbered to 3 and 4
    - \* Improved discussion in sections 2-4

- Note on providing intuition for when trade agreements can be made (i.e. when an interior solution exists from section 4)

For letter

- thank him
- “I want to be very clear that I understand that my previous discussion did not make clear [sic]”

Smaller points

- Reviewer 1, #2 goes away with renegotiation
- Need thorough lit review of finite punishments
  - Green Porter in game theory
  - Is there anything in trade?
- fix discounting to  $\frac{1-\delta^T}{1-\delta}$  (period after punishment is discounted  $\delta^T$ ) and  $\frac{\delta-\delta^{T+1}}{1-\delta}$  (period after punishment is discounted  $\delta^{T+1}$ ) in draft
- Clarify assumption that legislature’s unilateral optimization problem has unique solution

Midwest, April 2015

- James Lake: what about collusion between the lobby and legislatures?
- Maurizio: “trade war” should be to MFN