

JIE R&R of SOP_Repeated

Notes from Joel's comments on model set-up

- Need to make period 0 much bigger: encompass everything executives do
 - Then repeated game is leg and lobby with lobby choosing e , leg choosing τ
 - If leg chooses $\tau \leq \tau^a$, repeat
 - Else go to a punishment period

Notes from phone call with Joel, 9/17

- Change language throughout to make clear it's a subgame-perfect Nash-reversion within a period
- Be more careful about how foreign responds (already taken care of in repeated game support for main construction—done on 9/17)
- For main nash-reversion construction: by definition, continuation payoffs don't depend on what we do today
 - During punishment sequence, don't condition on what happens from period to period
- In asymmetric case, can I make punishments such that players don't condition on lobbying effort across periods? Would need to condition everything on leg's response (higher tariff than it's supposed to choose)
- Be clear that a period is one play of the stage game
 - Phase is one part of the stage game

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 τ^a with asymmetric
- Editor point 2: when determining \bar{e} , I need to take into account that τ^b depends on \bar{e}
 - It is true that the severity of the punishment for deviating does not depend on τ^b , and that this means that τ^b will maximize current payoff (actually, continuation value?). So clearly τ^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 δ^T) and $\frac{\delta-\delta^{T+1}}{1-\delta}$ (period after punishment is discounted δ^{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