

The Global Game of Regime Change

Morris & Shin (2003)

Nature draws $\theta \sim U(\mathbb{R})$

Private signals: $x_i = \theta + \varepsilon_i, \quad \varepsilon_i \sim \mathcal{N}(0, \sigma^2)$

Each citizen observes only their own x_i and chooses:

$i = 1$

$i = 2$

$i = 3$

...

$i = N$

JOIN ($a_i = 1$)

STAY ($a_i = 0$)

Payoffs:
JOIN + success: $+B$
JOIN + failure: $-C$
STAY: 0

Regime falls iff $A = \int a_i di > \theta$

Equilibrium:
JOIN iff $x_i < x^*$
 $x^* = \theta^* + \sigma\Phi^{-1}(\theta^*)$
 $\theta^* = B/(B+C)$