

Designing the Optimal Menu of Tests

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Abstract

A decision-maker must accept or reject a privately informed agent. The agent always wants to be accepted, while the decision-maker wants to accept only a subset of types. The decision-maker has access to a set of feasible tests and, prior to making a decision, requires the agent to choose a test from a menu. By offering a menu, the decision-maker can use the choice as an additional source of information. I characterise the decision-maker's optimal menu for arbitrary type structures and feasible tests. I then apply this characterisation to different environments. When the domain of feasible tests contains a most informative test, I obtain conditions under which a dominated test is part of the menu and under which only the most informative test is offered. I also characterise the optimal menu when types are multidimensional or when tests vary in their difficulty.

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1 Introduction

In many economic settings, decision-makers (DMs) rely on tests to guide their actions. Universities use standardised tests as part of their admission process, firms interview job candidates before they hire them and regulators test products prior to authorisation. In these examples, the DM is trying to learn some private information held by an agent: the ability of a student, the productivity of a candidate or the quality of a product. Ideally, the DM would want to set up a fully revealing test, but his testing capacity is usually constrained and thus learning only from the test outcome is limited. For example, a hiring firm is constrained by the amount of time and resources it can allocate to the selection process; most universities have to use externally provided tests like the SAT or the GRE for their admission procedures; and medicine regulatory agencies face both technological and ethical constraints when authorising new drugs.

However, there is an additional channel the DM can use to learn about the agent. He can let the agent *choose* which test to take and then use this choice as an additional source of information. In this paper, I study how the DM can optimally design a *menu* of tests when his testing capacity is constrained.

In their classic work, Grossman (1981) and Milgrom (1981) showed that letting an agent disclose evidence about his private information can be a powerful tool. Disclosing evidence can be seen as choosing a particular kind of test that takes a deterministic form. They provided conditions under which the DM can fully learn the agent's private information. However, to apply their arguments, the DM would need access to a rich domain of tests, in particular deterministic ones, and thus in most cases, full information revelation is not attainable.

I develop general tools for characterising the optimal menu of tests for arbitrary domains of feasible tests. I then apply these tools to natural economic applications and determine

which tests are part of the optimal menu and how it depends on their properties and the DM's preferences. Specifically, I characterise the optimal menu when the set of feasible tests contains a most informative test, when tests vary in their difficulty and when each test can identify only one dimension of the agent's private information.

In practice, DMs offer menus of tests to agents and my result motivate their use. For example, in clinical trials, pharmaceutical firms design the studies themselves to convince the regulator (see e.g., Food and Administration, 2010). Universities sometimes allow students to opt out of standardised tests in their admission process. Music conservatory generally allow candidates to choose which piece they are going to play when they audition.

I consider a DM who has to accept or reject an agent. While the DM wants to accept a subset of types (the A -types) and reject the others (the R -types), the agent always wants to be accepted. The agent is privately informed about his type. The domain of feasible tests is an exogenously given set of Blackwell experiments. The DM designs a menu of tests, a subset of the feasible tests, from which the agent chooses one. The DM can commit to a menu but not to a strategy, i.e., an action based on the test choice and outcome.

The first step in the analysis is to provide a characterisation of the optimal menu for arbitrary type structures and tests available. In Theorem 1, I show that the optimal menu and strategies are the outcome of an auxiliary zero-sum game. This result greatly simplifies the analysis. Rather than comparing equilibria under different menus to determine the optimal one, it is enough to find an equilibrium in one auxiliary game. In that game, the A -types and the DM maximise the *DM's utility* while the R -types minimise it. The A -types choose a test but the R -types choose an A -type to mimic. I show that the tests chosen in that game correspond to the optimal menu. Moreover, I show that if the DM could commit ex-ante to a strategy, the optimal menu and strategies would be exactly the same as without commitment. Finally, Theorem 1 shows that A -types play a pure strategy in the optimal menu.

Theorem 1 implies that the number of tests in the optimal menu is bounded by the number of A -types. Therefore, if there is only one A -type, as in binary-type models, there is always an optimal menu with only one test. Thus in this case, the DM cannot productively use the choice of tests to improve his choice. This is true without making any assumptions on the set of available tests.

In Section 4, I use Theorem 1 to determine which tests are part of the optimal menu in three natural economic applications. In Section 4.1, I consider a domain of feasible tests containing a dominant one, in the sense of Blackwell (1953)'s informativeness order. In Lemma 1, I first show that the most informative test is always part of an optimal menu. I then provide conditions under which a dominated test is part of the optimal menu. One example of this environment is a university considering whether to allow students to opt out of a standardised test like the SAT when applying. This is effectively offering a menu with the SAT and an uninformative test.

I first focus on environments where tests have two outcome (pass and fail). In this case, types can be ordered by how likely they are to generate the pass signal in the most informative test. I show that for any prior the optimal menu contains only the most informative test if, and only if, the DM's payoff is single-peaked with respect to that order. This corresponds to the DM willing to accept either only high types, only low types or only intermediate types, as measured by their performance on the test. On the other hand, the optimal menu always includes a strictly less informative test if, and only if, the DM's payoff is enclosed. This corresponds to the DM wanting to accept at least the worst and the best performer on the test. Failure of single-peakness can occur for example when the most informative test does not test all relevant dimensions or only tests a proxy of the relevant dimension.

In the case where the domain of feasible tests contains a dominant tests and they generate more than two signals, the results extend as follows. If there exists a subset of signals where

single-peakness is violated, there exists a less informative test that is part of the optimal menu for some prior. On the other hand, if the environment is one-dimensional, in the sense that all the tests satisfy the monotone likelihood ratio property and the DM wants to accept any type above a threshold, only the most informative test is offered.

In the first application, I considered a domain of feasible tests where tests can be ordered by their informativeness. In Section 4.2, I consider one-dimensional environments where feasible tests are ordered by their difficulty. For example, the DM could be a regulator deciding how hard a compliance test is before authorising a product. The testing technology is a set of pass-fail tests and varying the difficulty of a test changes which types it identifies better. A more difficult test is informative when it is passed, as only high types are likely to produce a high grade but it is less informative when it is failed. In this case, I show again that a singleton menu is optimal.

In previous sections, I show that for natural specifications of one-dimensional environments, a singleton menu is optimal. I then turn to multidimensional environments. For example, a hiring firm could be guided by two considerations, the candidate's technical and managerial skills and specialise the interview on either dimension. More generally, I assume that the agent's type has two components and each test is informative about only one of them.¹ Offering tests for both dimensions allows A -types that perform badly in one dimension to select the test where they perform best. I show that the optimal menu contains both tests whenever the DM wants to accept any type that performs well in at least one dimension. This would be the case if the hiring firm would be happy to hire a candidate with high technical skills but no managerial skills and vice-versa. On the other hand, if the firm cares about both dimension simultaneously, then for some priors, it uses only one test.

In Section 5, I move beyond specific applications and give a general condition on the DM's

¹The results extend easily to more than two dimensions.

preferences and tests available that guarantees that a test is part of an optimal menu. I also show the necessary and sufficient condition on tests for the DM to never make a mistake.

Finally, in Section 6, I show that the model can be easily extended to allow for communication. I model communication as an additional cheap-talk message on top of the test choice. For example, it could be a cover letter where the candidate can freely communicate with the DM when applying for a job or to university. A characterisation as in Theorem 1 also holds. I also show that in this case, it is irrelevant for the outcome of the game who chooses the test, the DM or the agent.

Relation to the literature

This paper is related to the literature studying verifiable information provision by a privately informed agent. In most of these papers, information provision is modelled with hard evidence (e.g., Grossman, 1981; Milgrom, 1981; Glazer and Rubinstein, 2006; Milgrom, 2008). Hard evidence is a particular kind of test that takes a deterministic form: when providing evidence, an agent is proving that he belongs to a subset of types. Instead, I characterise the DM-optimal equilibrium allowing for arbitrary, non-deterministic tests. Another difference is that in these papers, the agent cannot show evidence he does not have. Thus, in my language, not all types can participate in all tests. See Section 2.1 for a discussion.

Formally, my model is most closely related to Glazer and Rubinstein (2006). I assume a similar payoff structure but in their model, the agent can only present deterministic evidence about his type. They consider an optimal mechanism that maps evidence to a decision and show that the outcome can be implemented without commitment (see also Hart et al., 2017; Sher, 2011, for similar results with other payoff structures). Theorem 1 generalises their result to arbitrary testing technology and my characterisation result also applies in their setup.

Glazer and Rubinstein (2004) study a related problem where an agent wants to persuade a DM to accept him. The agent first sends a message to the DM. Based on the report, the DM verifies one dimension of the multidimensional type and then takes an action. In Section 6, I extend the characterisation of Theorem 1 to allow for communication from the agent. I show that in this case, it is irrelevant who chooses the test, the DM or the agent. These results generalise Glazer and Rubinstein (2004)’s result on the value of commitment to arbitrary type structures and domains of feasible tests.²

More generally, this paper relates to the mechanism design with evidence literature (e.g., Green and Laffont, 1986; Bull and Watson, 2007; Deneckere and Severinov, 2008; Koessler and Perez-Richet, 2019; Ben-Porath et al., 2019).³ Assuming commitment from the DM, Theorem 1 characterises the optimal mechanism that maps a test choice and outcome to an acceptance probability. Unlike most of that literature, I allow for arbitrary domain of feasible tests that include non-deterministic tests.⁴

An important focus of the literature on strategic disclosure is finding conditions under which all information is revealed in equilibrium, see e.g., Grossman (1981), Milgrom (1981), Lipman and Seppi (1995), Giovannoni and Seidmann (2007) or Hagenbach et al. (2014). I characterise the optimal choice of test when full information is not attainable. In Proposition 9, I provide the necessary and sufficient conditions for full information revelation in this model.

Other papers study models of test design where the agent’s action (the sender in these models) influences the information revealed. In particular, this paper is closer to ones that have observable choices from the agent. For example, Rosar (2017) and Harbaugh and Rasmusen (2018) consider the optimal design of tests when a privately informed agent decides, possibly at a cost, to take a test. DeMarzo et al. (2019) study a setting where an initially uninformed

²It also expands a result of Carroll and Egorov (2019) that show the irrelevance of who chooses the test in the case where the choice of test fully reveals the type.

³See also Forges and Koessler (2005), Kartik and Tercieux (2012) and Strausz (2017).

⁴For an example of mechanism design paper with non-deterministic tests, see Ball and Kattwinkel (2019).

agent chooses amongst different tests and decide whether to disclose the outcome. Weksler and Zik (Forthcoming) compare mandatory to voluntary disclosure of fully informative test results that the agent must first pay for. These papers share the idea that observing the choice of test allows the DM to make additional inference on the agent's type. With the exception of DeMarzo et al. (2019), they consider simple menus that consist of the designed test and an uninformative test whereas I allow arbitrary menu from arbitrary domain of feasible tests.

Other papers consider the optimal design of tests where the agent's choice is unobserved. Deb and Stewart (2018) study the dynamic allocation of tests when both effort and the agent's type affect the outcome of the test. In Perez-Richet and Skreta (2022) and Ball (2021) the agent can falsify his type at a cost (note that Perez-Richet and Skreta (2022) also consider observable falsification). Unobservable actions would change the analysis of this model, but I discuss in Section 2.1 which results would still hold.⁵

2 Model

There is a decision-maker (DM) and an agent. The agent has a type $\theta \in \Theta$, $|\Theta| < \infty$, with a common prior $\mu \in \Delta(\Theta)$. The set of types is partitioned in two: $\Theta = A \cup R$, $A \cap R = \emptyset$. The type is private information of the agent. The DM must take an action $a \in \{0, 1\}$, accept or reject. The utilities of the DM and the agent are $v(a, \theta) = a(\mathbb{1}[\theta \in A] - \mathbb{1}[\theta \in R])$ and $u(a, \theta) = a$. That is, the DM wants to accept agents in A and reject agents in R . The agent always wants to be accepted. The analysis is virtually unchanged by allowing for DM's utility functions of the form $v(a, \theta) = a\nu(\theta)$ for some $\nu : \Theta \rightarrow \mathbb{R}$.

⁵These papers study receiver-optimal tests. There are also papers studying sender-optimal tests when the sender cannot fully commit to reporting the test correctly, e.g., Nguyen and Tan (2021) or Lipnowski et al. (2022). In Boleslavsky and Kim (2018) the sender can commit but there is a third agent whose effort determines the state of the world.

There is a finite exogenous set of test $T \subseteq \Pi \equiv \{\pi : \Theta \rightarrow \Delta X\}$, where X is some finite signal space. The conditional probabilities of test t are $\pi_t(\cdot|\theta)$. The exogenous set of tests can capture different constraints on DM's testing capacity. For example, it could come from a capacity constraint in the information processing/acquisition abilities of the DM, e.g., there could be a cost function associated with each experiment $C : \Pi \rightarrow \mathbb{R}$ and a maximum cost the DM can pay $c \in \mathbb{R}$, $T \subset \{\pi : c \geq C(\pi)\}$. The constraint can also be on some properties of the tests that can be used, e.g., $T \subset \{\pi : \pi \text{ has the MLRP}\}$. Finally, it could be a purely technological constraint, e.g., when choosing amongst standardised test, universities can only choose from an exogenously given set of tests.

The DM posts a menu of tests, $\mathcal{M} \subseteq T$. A strategy for the agent is a random choice of test, $\sigma : \Theta \rightarrow \Delta \mathcal{M}$. A strategy for the DM is a probability of accepting after observing the test chosen and the signal realisation, $\alpha : \mathcal{M} \times X \rightarrow [0, 1]$. Beliefs of the DM are $\tilde{\mu} : \mathcal{M} \times X \rightarrow \Delta \Theta$, a probability distribution over types given an observed test and signal realisation.

The solution concept is DM-preferred Perfect Bayesian Equilibrium.

I write $(\alpha, \sigma) \in \text{PBE}(\mathcal{M})$ if there is a belief $\tilde{\mu}$ where $(\alpha, \sigma, \tilde{\mu})$ is a PBE when the menu is \mathcal{M} .

The optimal design of menu solves

$$V = \max_{\mathcal{M} \subseteq T} \max_{\sigma, \alpha} \sum_{\theta \in \Theta} \mu(\theta) \sum_{t \in \mathcal{M}} \sigma(t|\theta) \sum_x \alpha(t, x) \pi_t(x|\theta) - \sum_{\theta \in \Theta} \mu(\theta) \sum_{t \in \mathcal{M}} \sigma(t|\theta) \sum_x \alpha(t, x) \pi_t(x|\theta)$$

s.t. $(\alpha, \sigma) \in \text{PBE}(\mathcal{M})$

Notation: For any α , denote the probability of type θ to be accepted in test t by $p_t(\alpha; \theta) \equiv \sum_x \alpha(t, x) \pi_t(x|\theta)$.

2.1 Discussion

Relation to models with evidence: The model can be interpreted as a generalisation of models with evidence. An evidence structure is a correspondence $E : \Theta \rightrightarrows M$ for some finite set of messages M . The corresponding set of feasible test has $X = \{x_1, x_0\}$ and for all $m \in M$, $\pi_m(x_1|\theta) = 1 \Leftrightarrow \theta \in E^{-1}(m)$. All the results go through by setting $\alpha(x_0, m) = 0$ for all m . This strategy could be justified because (x_0, m) would always be off-path. Alternatively, we can set this restriction on α directly and Theorem 1 would still hold.

Off-path beliefs: The results would exactly the same if I would take DM-preferred Sequential Equilibrium (Kreps and Wilson, 1982) as my solution concept. I comment on this more in detail in the discussion of Theorem 1.

Effort: The outcome of the test is independent of the agent's action. The model would go unchanged if effort is costless and observable as it could be deterred with off-path beliefs. If the effort is costless but unobservable the results would generally change. However, in most applications of interest, the signal are ordered and the DM's strategy is a cutoff rule. A reasonable assumption on the role of effort would be that the highest the effort, the likelier a high signal. In this case, the agent would always have an incentive to provide high effort. See Deb and Stewart (2018) and Ball and Kattwinkel (2019) for models that takes into account both asymmetric information and moral hazard in a model of testing.

2.2 Example: Opting out of SAT

Suppose a university uses some standardised test for university admission and that there are three types of students: $A = \{A1, A2\}$ and $R = \{R1\}$. Consider the testing set $T = \{t, \emptyset\}$

where \emptyset is an uninformative test. The test t is described by $X = \{x_0, x_1\}$ and

$$\begin{aligned}\pi_t(x|A1) &= \begin{cases} 1/2 & \text{if } x = x_0 \\ 1/2 & \text{if } x = x_1 \end{cases} & \pi_t(x|R1) &= \begin{cases} 1/3 & \text{if } x = x_0 \\ 2/3 & \text{if } x = x_1 \end{cases} \\ \pi_t(x|A2) &= \begin{cases} 0 & \text{if } x = x_0 \\ 1 & \text{if } x = x_1 \end{cases}\end{aligned}$$

Furthermore, suppose that $\mu(A1) < \frac{2}{3}\mu(R1) < \mu(A2)$.

This example can be interpreted as follows. The test t is a standardised test a university uses to get information about students, like the SAT or GRE. The signal x_1 represents a high grade and x_0 a low grade. A common concern about these type of tests is that they can be too easily gamed or fail to identify good students in some categories of the population (see e.g., Hubler, 2020). The parametrisation of the test t captures this phenomenon. While A_2 and R_1 are naturally ordered, in the sense that A_2 is more likely to have a good grade than R_1 , A_1 is a student that the university wants to accept but generates a lower grade than R_1 . Adding \emptyset to the menu allows the student to opt out from the standardised test.

When only t is offered: The information structure and prior deliver the following best response when only t is offered,

$$\alpha(x, t) = \begin{cases} 0 & \text{if } x = x_0 \\ 1 & \text{if } x = x_1 \end{cases}$$

The acceptance probabilities of each types are then

$$p_t(\alpha; R1) = 2/3 \qquad p_t(\alpha; A1) = 1/2 \qquad p_t(\alpha; A2) = 1$$

When both t and \emptyset are offered: Consider the equilibrium with the following strategies of the agent:

$$\sigma(\emptyset|R1) = \frac{\mu(A1)}{\mu(R1)} \quad \sigma(\emptyset|A1) = 1 \quad \sigma(t|A2) = 1$$

The student $R1$ mixes between the two tests, t and \emptyset , whereas $A1$ chooses \emptyset with probability one and $A2$ chooses t with probability one. Note that if all types play a pure strategy, it is not possible to maintain an equilibrium where both tests are chosen. If it is the case, there is a test that is only chosen by an A -type and in equilibrium the DM must accept with probability one after any signal in that test. Thus R_1 mixes in equilibrium to make the menu $\{t, \emptyset\}$ credible.

Given the agent's strategy, the DM's strategy after t remains the same as before. When the DM observes \emptyset , he is indifferent between accepting and rejecting. He then mixes in a way that makes $R1$ indifferent between \emptyset and t : $\alpha(x, \emptyset) = 2/3$. The resulting acceptance probabilities are

$$\mathbb{E}[p(\alpha; R1)] = 2/3 \quad p_{\emptyset}(\alpha; A1) = 2/3 \quad p_t(\alpha; A2) = 1$$

Types $R1$ and $A2$ have the same acceptance probabilities as before but $A1$ is accepted with strictly higher probability. Therefore, allowing to opt out strictly increases the DM's payoffs.

3 Characterisation of the optimal menu

In this section, I show that the value of the optimal menu is characterised by an equilibrium of a zero-sum game. I provide a sketch of the proof of Theorem 1 in Section 3.1.

Let $s : A \rightarrow \Delta T$ and $m : R \rightarrow \Delta A$ and abusing notation, let $\alpha : T \times X \rightarrow [0, 1]$ and

$$v(\alpha, s, m) \equiv \sum_{\theta \in A} \sum_{t \in T} s(t|\theta) \left[\mu(\theta) p_t(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta') m(\theta|\theta') p_t(\alpha; \theta') \right]. \quad (1)$$

The function s can be interpreted as A -types choosing a test, m as R -types choosing an A -type to mimic, α as the DM accepting the agent after a test and signal realisation. The function v is then the DM's expected payoffs from a distribution over tests induced by the pair (s, m) . I explain these objects in more detail in the discussion of Theorem 1.

Theorem 1. *The value of an optimal menu is*

$$V = \max_{\alpha, s} \min_m v(\alpha, s, m) = \min_m \max_{\alpha, s} v(\alpha, s, m)$$

A saddle point $((\alpha, s), m)$ of v such that $s(\cdot|\theta)$ is in pure strategies for all $\theta \in A$ exists and characterises an optimal menu, $\mathcal{M} = \cup_{\theta \in A} \text{supp } s(\cdot|\theta)$, and strategies

- *for $\theta \in A : \sigma(t|\theta) = s(t|\theta)$*
- *for $\theta' \in R : \sigma(t|\theta') = \sum_{\theta \in A} m(\theta|\theta') s(t|\theta)$*
- *the DM's strategy is α .*

Moreover, the DM does not benefit from commitment over α .

All proofs are relegated to the appendix.

Theorem 1 provides a characterisation of the optimal menu in terms of an auxiliary zero-sum game. The fact that an optimal menu is an equilibrium of a game gives us a powerful tool to test equilibria. Indeed, it is not necessary to compare equilibria across menus to establish

that a menu is not optimal. It is enough to find that $(\tilde{\alpha}, \tilde{s})$ such that

$$\min_m v(\alpha, s, m) < \min_m v(\tilde{\alpha}, \tilde{s}, m)$$

to show that (α, s, m) does not constitute an optimal menu without having to worry whether $(\tilde{\alpha}, \tilde{s})$ is optimal.

To understand the structure of this game better, consider the zero-sum game presented at the interim stage for a fixed α . In that game, the payoffs of the A - and R -types for a strategy (s, m) are

$$\begin{aligned} \text{for } \theta \in A \text{ choosing } t, & \mu(\theta)p_t(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_t(\alpha; \theta') \\ \text{for } \theta' \in R \text{ choosing } \theta, & \sum_t s(t|\theta)p_t(\alpha; \theta') \end{aligned}$$

In the zero-sum game, each A -type is choosing a test and each R -type is choosing an A -type to mimic. The R -types are maximising their probability of being accepted like in the original problem. The A -type maximise a modified version of their utility where they maximise their probability of being accepted while being penalised every time a R -type mimics them and is accepted. The A -types' utility is thus modified to align it with the DM's payoffs.

The strategies of the zero-sum game induce a distribution over tests for each type. The A -types get the distribution over test they choose and the R -types the distribution of the A -types they choose to mimic. Theorem 1 shows that this distributions are actually the equilibrium strategies of the optimal menu game. Moreover, the A -types play a pure strategy.

To understand why choosing test t for type $\theta \in A$ in the zero-sum game delivers the right equilibrium behaviour in the original game, consider the following interpretation of the game.

The payoffs of a type $\theta \in A$ can be understood as a gross payoff

$$\mu(\theta)p_t(\alpha; \theta),$$

corresponding to the payoffs in the original game and a net payoff

$$\mu(\theta)p_t(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_t(\alpha; \theta').$$

The equilibrium behaviour of R -types means that the test they choose in equilibrium carries the largest negative term because they would choose a type $\theta \in A$ only if it maximises their probability of being accepted. That is, assuming a pure strategy from the A -types, if $m(\theta|\theta') > 0$, then $p_t(\alpha; \theta) \geq p_{t'}(\alpha; \theta')$ for any t' chosen by some other A -type. Let's consider a deviation of that A -type θ to test t' when the equilibrium is (s, m) . Equilibrium behaviour gives us

$$\begin{aligned} \mu(\theta)p_t(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_t(\alpha; \theta') &\geq \mu(\theta)p_{t'}(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_{t'}(\alpha; \theta') \\ \Rightarrow \mu(\theta)(p_t(\alpha; \theta) - p_{t'}(\alpha; \theta)) &\geq \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')(p_t(\alpha; \theta') - p_{t'}(\alpha; \theta')) \geq 0 \end{aligned}$$

where the last inequality comes from the equilibrium behaviour of the R -types. Thus the A -types choose the test that maximise their probability of being accepted. Intuitively, the test chosen in equilibrium is “the most expensive” amongst all the tests. This means that the gross payoffs from it must be the largest.

Theorem 1 also shows that commitment has no value. I interpret this result as a hierarchy over sources of learning. The DM has two sources of information, the “hard information” from the test results and the endogenously created information from the choice of test. When the DM can commit to a strategy, he can “sacrifice” payoffs from the test result by not best

replying, in order to create separation of types through the test choice. By showing that the DM always best replies, even when he can commit, I show that he should always prioritise the hard information over creating endogenous information through the test choice.

That commitment has no value in this game comes from the zero-sum structure of the characterisation. Because a minimax theorem holds,⁶ this implies that the order of moves do not matter in this game: the DM has the same payoffs if he moves first or last.

Note that if the solution concept is DM-preferred Sequential Equilibrium (Kreps and Wilson, 1982), Theorem 1 would also hold. If all tests have full support, then all signals are on-path and the wPBE and SE coincide. If some tests do not have full support, then I can always assume that the trembling of R -types is more likely than the trembling of A -types. Then, the DM's off-path beliefs after the pair (t, x) are that the type is an A -type if the support of A - and R -types do not coincide and that the type is an R -type otherwise. This guarantees that if an A -type finds it profitable to deviate in the menu game, he would also find it profitable in the zero-sum game as no R -type would have an incentive to mimic him.

Finally, Theorem 1 gives an upper bound on the number of tests needed in an optimal menu. If A -types are playing a pure strategy and R -types only use tests A -types use, then the number of tests used is at most $|A|$.

Corollary 1. *The number of tests used in the optimal menu is at most $|A|$.*

An immediate corollary is also that if there is only one type the DM would like to accept an optimal menu is to use only one test. In particular, this results shows that in a binary state environment, the optimal mechanism uses only one test, no matter what the available set of test is.

⁶Note that classic minimax theorems like Von Neumann's or Sion's do not hold here. Instead, I rely on an equilibrium existence result in non-quasiconcave games (Baye et al., 1993) to show that the max-min equality holds.

Corollary 2. *Suppose $|A| = 1$. Then for any T , there is an optimal menu that uses only one test.*

3.1 Sketch of proof Theorem 1

To prove Theorem 1, I will first need to introduce *mechanisms*. A (direct) mechanism is a mapping $\tilde{\sigma} : \Theta \rightarrow \Delta T$, a function from types to distribution over tests. Suppose there is a designer that could design $\tilde{\sigma}$ to maximise the DM payoffs. The DM only observes the realised test and signal, thus the definition of his strategy is unchanged. The agent's strategy is now to report a type into the mechanism. The solution concept is still DM-preferred PBE. Standard arguments show that without loss of generality we can restrict attention to direct truthful mechanism. The designer's problem is

$$\begin{aligned} \tilde{V} = \max_{\tilde{\sigma}, \alpha} & \sum_{\theta \in A} \mu(\theta) \sum_t \tilde{\sigma}(t|\theta) p_t(\alpha; \theta) - \sum_{\theta \in R} \mu(\theta) \sum_t \tilde{\sigma}(t|\theta) p_t(\alpha; \theta) \\ \text{s.t.} & \sum_t (\tilde{\sigma}(t|\theta) - \tilde{\sigma}(t|\theta')) p_t(\alpha; \theta) \geq 0 \text{ for all } \theta, \theta' \\ & \sum_t \tilde{\sigma}(t|\theta) = 1 \text{ for all } \theta \\ & \alpha \in BR(\tilde{\sigma}) \end{aligned}$$

where the first constraint is the agent's incentive compatibility constraint, the second is a feasibility constraint and $\alpha \in BR(\tilde{\sigma})$ means that the strategy α is a best-response to some beliefs consistent with the mechanism. We have $\tilde{V} \geq V$, i.e., the value of the optimal mechanism is larger than the value of the optimal menu, as imposing a menu is simply restricting the class of mechanism the designer could use.

The first part of the proof shows that $\tilde{V} = \max_{\alpha, s} \min_m v(\alpha, s, m)$. The second part shows

that the optimal mechanism can be implemented by posting a menu of tests.

To show that $\tilde{V} = \max_{\alpha, s} \min_m v(\alpha, s, m)$, I characterise the optimal mechanism when the DM commits to α . The designer's problem becomes

$$\begin{aligned} \tilde{V}(\alpha) = \max_{\tilde{\sigma}} & \sum_{\theta \in A} \mu(\theta) \sum_t \tilde{\sigma}(t|\theta) p_t(\alpha; \theta) - \sum_{\theta \in R} \mu(\theta) \sum_t \tilde{\sigma}(t|\theta) p_t(\alpha; \theta) \\ \text{s.t.} & \sum_t (\tilde{\sigma}(t|\theta) - \tilde{\sigma}(t|\theta')) p_t(\alpha; \theta) \geq 0 \text{ for all } \theta, \theta' \\ & \sum_t \tilde{\sigma}(t|\theta) = 1 \text{ for all } \theta \end{aligned}$$

The notation $\tilde{V}(\alpha)$ indicates the designer's problem when the DM has committed to the strategy α .

This is a linear program and verifying complementary slackness conditions shows that $\tilde{V}(\alpha) = \max_s \min_m v(\alpha, s, m)$. As in the statement of the theorem, the pair (s, m) characterises an optimal mechanism $\tilde{\sigma}$ by setting $\tilde{\sigma}(t|\theta) = s(t|\theta)$ for $\theta \in A$ and $\tilde{\sigma}(t|\theta') = \sum_{\theta \in A} s(t|\theta) m(\theta|\theta')$.

The value of the DM if he could commit to α is $\max_{\alpha} \tilde{V}(\alpha)$. Now notice that

$$\max_{\alpha} \tilde{V}(\alpha) = \max_{\alpha} \max_s \min_m v(\alpha, s, m) = \max_{\alpha, s} \min_m v(\alpha, s, m).$$

Using a result from Baye et al. (1993) on the existence of Nash equilibrium in non-quasiconcave games, $\max_{\alpha} \tilde{V}(\alpha)$ is attained by (α^*, s^*, m^*) such that

$$v(\alpha, s, m^*) \leq v(\alpha^*, s^*, m^*) \leq v(\alpha^*, s^*, m) \text{ for all } \alpha, s, m$$

This in turn implies that α^* is a best-response to the mechanism implied by (s^*, m^*) as $v(\alpha^*, s^*, m^*) \geq v(\alpha, s^*, m^*)$ for all α . Therefore the best-response constraint of the orig-

inal problem would be satisfied if we would not impose it. This proves that the DM would not benefit from committing to α if he could offer a mechanism.

The second part shows that the optimal mechanism can be implemented by posting a menu of tests. The way the proof proceeds is by showing that there is $(\alpha^*, s^*) \in \arg \max \min_m v(\alpha, s, m)$, where s^* is a pure strategy for all $\theta \in A$. If this is the case, then we can take the menu of tests as the support of tests in the optimal mechanism. Each type $\theta \in A$ is better off choosing “his” test as choosing another one would violate the incentive compatibility constraints. Types $\theta' \in R$ possibly have a randomised allocation but they are indifferent between any tests they are allocated to. Indeed, their randomised allocation corresponds to a mixed strategy in the auxiliary game where they are maximising their probability of being accepted, just like in the menu-game.

To understand why s^* must be a pure strategy, note that given m^* , the DM and types in $\theta \in A$ must choose α and s to maximise $v(\alpha, s, m^*)$. If the A -types are willing to mix, they must be indifferent between all the tests in the support for a fixed α^* . This α^* is itself a best-response to (s^*, m^*) . Choosing a pure strategy in the support of s^* allows then the DM to re-optimize over α and get a higher payoff for both the DM and the A -types.

4 Applications

4.1 Optimal menu with Blackwell dominant test

It is common in applications that the DM has access to a most informative test. This can be because the choice is simply between a test and opting out of the test like in the SAT example. It can also come from the structure of the constraints. For example, the DM could have a time budget to conduct an interview. The more time the interview takes, the more informative it

is. Another possibility is that the DM can easily make a test less informative by simply not conducting part of the test. If a test is composed of a series of questions, the DM can ignore some of them.

The main notion of informativeness in economic theory is the one of Blackwell (1953).

Definition 1 (Blackwell (1953)). *A test t is more informative than t' , $t \succeq t'$, if there is function $\beta : X \times X \rightarrow [0, 1]$ such that for all $x' \in X$, $\sum_x \beta(x, x') \pi_t(x|\theta) = \pi_{t'}(x'|\theta)$ for all $\theta \in \Theta$ and for all $x \in X$, $\sum_{x'} \beta(x, x') = 1$.*

I call a test t a dominant test if $t \succeq t'$ for all $t' \in T$. If a test is more informative than another then in any decision problem, i.e., a pair of utility function and a prior, using the more informative test yields higher expected utility. A first important fact we will record here is that if there is a most informative test, then it is part of an optimal menu.

Lemma 1. *If there is $t \in T$ such that $t \succeq t'$ for all $t' \in T$, then there is an optimal menu that includes t .*

This lemma follows from the zero-sum characterisation of Theorem 1 and the properties of dominant test. Indeed, if we find a menu where the dominant test t is not included, we can modify the DM's strategy such that one A -type is accepted with higher probability than the test he is choosing, say t' , and all R -types are accepted with lower probability than in t' . Then this A -type has a profitable deviation to t .

As we have seen in the SAT example in Section 2.2, it can be optimal to add a strictly less informative in the optimal menu. I first focus on binary signals environment, $X = \{x_0, x_1\}$. Let t be the most informative test in T . When signals are binary, we can order the types by their likelihood of generating signal x_1 : $\theta \geq_t \theta' \Leftrightarrow \pi_t(x_1|\theta) \geq \pi_t(x_1|\theta')$.⁷ I characterise the optimal menu for different payoff function of the DM.

⁷Note that given that tests are binary, this is equivalent to ordering type by the likelihood ratio, $\frac{\pi(x_1|\theta)}{\pi(x_0|\theta)}$.

Definition 2. *The DM's preferences are single-peaked given the order \geq on Θ if there is $\theta_1, \theta_2 \in A$ such that $A = \{\theta : \theta_1 \leq \theta \leq \theta_2\}$.*

Preferences are single-peaked if the DM only wants to either only accept high types, only low types or only intermediate types, where the order is determined by the performance of types on the test. Preferences are not single-peaked whenever it is possible to find $A_1, A_2 \in A$ and $R_1 \in R$ such that $A_1 <_t R_1 <_t A_2$. This was for example the case in the SAT example in Section 2.2.

We get the following characterisation.

Proposition 1. *Let $X = \{x_0, x_1\}$. Suppose there is $t \in T$ such that $t \succeq t'$ for all $t' \in T$ and let \geq_t on Θ be the order implied by t .*

The singleton menu $\{t\}$ is optimal for any $\mu \Leftrightarrow$ the DM's preferences are single-peaked given \geq_t .

From Lemma 1, the most informative test is part of the optimal menu. Whenever the DM's preferences are single-peaked, if the most informative test is included in the menu, the unique resulting equilibrium is one where all types choose the most informative test. The key argument in the analysis is noting that $p_t(\alpha; \theta) - p_{t'}(\alpha; \theta)$ is single-crossing in θ with respect to the order \geq_t , for any α . When preferences are single-peaked, we can use the single-crossing condition and properties of tests satisfying the monotone likelihood ratio property to show that there is a unique equilibrium where only t is chosen.

On the other hand, if the preferences are not single-peaked, there is a prior where offering even a completely uninformative test with the most informative test is strictly better for the DM. To illustrate, consider three types $A_1, A_2 \in A$ and $R_1 \in R$ such that $A_1 <_t R_1 <_t A_2$. Suppose the prior is such that if only t is offered, the DM accepts after x_1 and rejects after x_0 . Using the likelihood ratio order, the DM can offer an uninformative test where the probability

of being accepted makes R_1 indifferent but is strictly preferred by A_1 . This constitutes a deviation in the zero-sum game. This reasoning can be used to show that including a less informative test is always beneficial whenever the DM's payoff is *enclosed*: there is $\theta_1, \theta_2 \in A$ such that $\theta_1 <_t \theta <_t \theta_2$ for any $\theta \neq \theta_1, \theta_2$.

Proposition 2. *Let $X = \{x_0, x_1\}$. Suppose there is $t \in T$ such that $t \succeq t'$ for all $t' \in T$ and let \geq_t on Θ be the order implied by t .*

If the DM's preferences are enclosed given $\geq_t \Leftrightarrow$ the DM's payoffs are higher in the menu $\{t, t'\}$ than in $\{t\}$ for any μ and $t' \in T$.

The ideas of Proposition 1 and Proposition 2 can be partially extended to more than two signals. First, if all tests satisfy the monotone likelihood ratio property and the DM only wants to accept types above a threshold, the optimal menu is to only offer the most informative test.

Proposition 3. *Suppose $\Theta, X \subset \mathbb{R}$, $A = \{\theta : \theta > \bar{\theta}\}$ for some $\bar{\theta}$ and all tests in T have full-support and the monotone likelihood ratio property: for $\theta > \theta'$,*

$$\frac{\pi_t(x|\theta)}{\pi_t(x|\theta')} \text{ is increasing in } x.$$

If there is $t \succeq t'$ for all $t' \in T$, then, the menu $\{t\}$ is optimal.

Again this result holds by showing a single-crossing difference property on the acceptance probability. Intuitively, the reason is that more informative tests send relatively higher signals for higher types. So if a low type chooses the most informative test, the higher types must also choose that one. This prevents any pooling of A -types and R -types on two different tests. Combined with Lemma 1 that guarantees the inclusion of the dominant test, we get our result. Note also that this result would hold using weaker information order like Lehmann (1988) or some weakening of it. The key property delivering the result is the single-crossing condition described above.

If it is possible to find two signals, x, x' , two A -types A_1, A_2 and one R -type, R_1 such that $\frac{\pi_t(x|A_1)}{\pi_t(x'|A_1)} < \frac{\pi_t(x|R_1)}{\pi_t(x'|R_1)} < \frac{\pi_t(x|A_2)}{\pi_t(x'|A_2)}$, then there is a test t' strictly less informative than t and a prior such that offering $\{t, t'\}$ is better for the DM than just offering $\{t\}$.

Proposition 4. *Let t be a test. Suppose there are two signals $x, x' \in X$, types $A_1, A_2 \in A$ and $R_1 \in R$ such that*

$$\frac{\pi_t(x|A_1)}{\pi_t(x'|A_1)} < \frac{\pi_t(x|R_1)}{\pi_t(x'|R_1)} < \frac{\pi_t(x|A_2)}{\pi_t(x'|A_2)}.$$

There is a prior μ and a test $t' \prec t$ such that the DM's payoffs are higher in the menu $\{t, t'\}$ than in $\{t\}$.

Intuitively, if we interpret x as a high signal, the A -type A_1 sends relatively low signals. Suppose that the prior is such that, if only t is offered, x is accepted and x' is not. In a sense, it means that in the test t , type R_1 performing better than A_1 on the signals x, x' . It is then beneficial for the DM to include a test that pools signals x, x' together. In that new test, type A_1 can choose the coarsened test where the superior performance of type R_1 is less important than in the original test.

The proof of Proposition 4 actually uses the following criterion to determine whether a less informative is part of the optimal menu. It gives condition to include coarsened version of a test.

Definition 3. *A test t is a coarsening of test t' if there is a partition of X , $\{X_i\}$, such that for all $\theta \in \Theta$,*

$$\begin{aligned} \pi_t(x_i|\theta) &= \sum_{x \in X_i} \pi_{t'}(x|\theta) \quad \text{for some } x_i \in X_i \\ \pi_t(x'|\theta) &= 0 \quad \text{for all } x' \in X_i, x' \neq x_i \end{aligned}$$

The idea of a coarsening is that it pools all the signal in one element of the partition X_i on one

signal x_i . The test t' is more informative than t as any strategy under t can be implemented under t' . I say that a test pools signals in X' if the partition is $\{X', \{x\} : x \notin X'\}$. Let $z^+ = \max\{0, z\}$.

Proposition 5. *Let $\alpha(x, t)$ be the optimal strategy when only test t is used. If there is $\tilde{\alpha} \in [0, 1]$ and $X' \subseteq X$ such that*

$$\sum_{\theta \in A} \sum_{x \in X'} \mu(\theta) [(\tilde{\alpha} - \alpha(x, t))\pi_t(x|\theta)]^+ \geq \sum_{\theta' \in R} \sum_{x \in X'} \mu(\theta') [(\tilde{\alpha} - \alpha(x, t))\pi_t(x|\theta')]^+$$

then it is optimal to include a coarsened version of t that pools signals in X' .

This result is a direct application of the zero-sum game of Theorem 1. It considers using the same strategy as in test t for the coarsened test but for the coarsened signal in X' where it uses $\tilde{\alpha}$. The condition then boils down to checking for a profitable deviation. The intuition for Proposition 5 is the same as in Proposition 4. The set X' identifies a set of signals where some A -types are performing worse than R -types. Offering a test that coarsens signals in X' creates a profitable deviation for these A -types.

4.2 Optimal menu with tests ordered by their difficulty

In many economic environments, the DM does not necessarily have access to a most informative test but can vary the difficulty to pass a test. This is for example the case for a regulator that can decide how demanding a certification test is. Like in Proposition 1 and Proposition 3, I show that the optimal menu is a singleton.

I first formalise the notion of more difficult test as follows.

Definition 4 (Difficulty environment). *An environment is a Difficulty environment if $\Theta \in \mathbb{R}$, $A = \{\theta : \theta > \bar{\theta}\}$ for some $\bar{\theta}$, $X = \{x_0, x_1\}$, $T \subset \mathbb{R}$, all tests have full-support, satisfy the*

monotone likelihood ratio property and for all $t > t'$, and $\theta > \theta'$,

$$\frac{\pi_t(x_1|\theta)}{\pi_t(x_1|\theta')} \geq \frac{\pi_{t'}(x_1|\theta)}{\pi_{t'}(x_1|\theta')} \quad \text{and} \quad \frac{\pi_t(x_0|\theta)}{\pi_t(x_0|\theta')} \geq \frac{\pi_{t'}(x_0|\theta)}{\pi_{t'}(x_0|\theta')}$$

If $t > t'$, I will say that t is harder than t' . To understand the last condition better, let $\mu(\cdot|x, t)$ be a posterior belief after observing signal x in test t . The monotone likelihood ratio property implies $\mu(\cdot|t, x_1) \succeq_{FOSD} \mu(\cdot|t, x_0)$, a higher signal is “good news” about the type (Milgrom, 1981). The last property in the definition further implies $\mu(\cdot|t, x) \succeq_{FOSD} \mu(\cdot|t', x)$. That means that a pass grade shifts beliefs more towards higher type in a harder test and a fail grade shifts more beliefs towards lower types in an easy test. Or put differently, the harder a test the more informative it is about a high type when there is a pass-grade whereas an easier test is informative about the low types when the test is failed. As an example, if $\Theta \subset (0, 1)$ and $\pi_t(x_1|\theta) = \theta^t$ we are in a Difficulty environment.

Proposition 6. *In a Difficulty environment, a singleton menu is optimal.*

Like Proposition 1 and Proposition 3, Proposition 6 illustrates how incentive constraints shape the size of the optimal menu. In the case of the single-peaked preferences with dominant test, the equilibrium when the most informative test is offered is unique and only that test is chosen. Here, it is possible to construct an equilibrium where more than one test is chosen in equilibrium. However, the DM strategy needed to sustain that equilibrium is such that he is better off offering only one test.

The proof proceeds in two steps. First, I show that there are at most two tests in the optimal menu and if there are two tests, the harder test must be more lenient than the easy test. In particular, I show that after the hard test, the DM must accept with some probability after a fail signal and in the easy test, reject with positive probability after a pass grade.

This means that to maintain incentives to select both tests, the DM only reacts to the least

informative signal from the test: in the hard test after a fail grade, in the easy test after a pass grade. This in turn implies that it would be better for the DM to use only one test and reject after a fail grade and accept after a pass grade.

4.3 Bidimensional environment

In this subsection, I apply the tools of Theorem 1 to study environments with bidimensional types. The analysis here can be easily extended to more than two dimensions. I assume that the DM has access to tests that can only reveal one dimension and the preference of the DM have some monotonicity along each dimension.

Definition 5. *An environment is bidimensional if $\Theta = \Theta_1 \times \Theta_2 \subset \mathbb{R}^2$, $X \subset \mathbb{R}$ and $T = \{t_1, t_2\}$ such that for $i = 1, 2$,*

- *if $\theta \in A$, then for all $\theta' \geq \theta$, $\theta' \in A$*
- *t_i has full support and for all $\theta_i > \theta'_i$,*

$$\frac{\pi_{t_i}(x|\theta_i, \theta_j)}{\pi_{t_i}(x|\theta'_i, \theta_j)} \text{ is strictly increasing in } x \text{ for any } \theta_j \in \Theta_j$$

- *$\pi_{t_i}(x|\theta_i, \theta_j) = \pi_{t_i}(x|\theta_i, \theta'_j)$ for all $\theta_j, \theta'_j \in \Theta_j$ and $x \in X$*

The first condition captures the idea that a higher type is always better for the DM. The second and third condition captures the idea that each test is only informative about one dimension and that a higher signal corresponds to a higher type in that dimension.

In this environment, whether the DM wants to offer a menu depends crucially on his preferences. In particular, I give a necessary and sufficient condition on the preferences such that a menu is optimal for any prior. Let $\bar{\theta}_i = \max \Theta_i$.

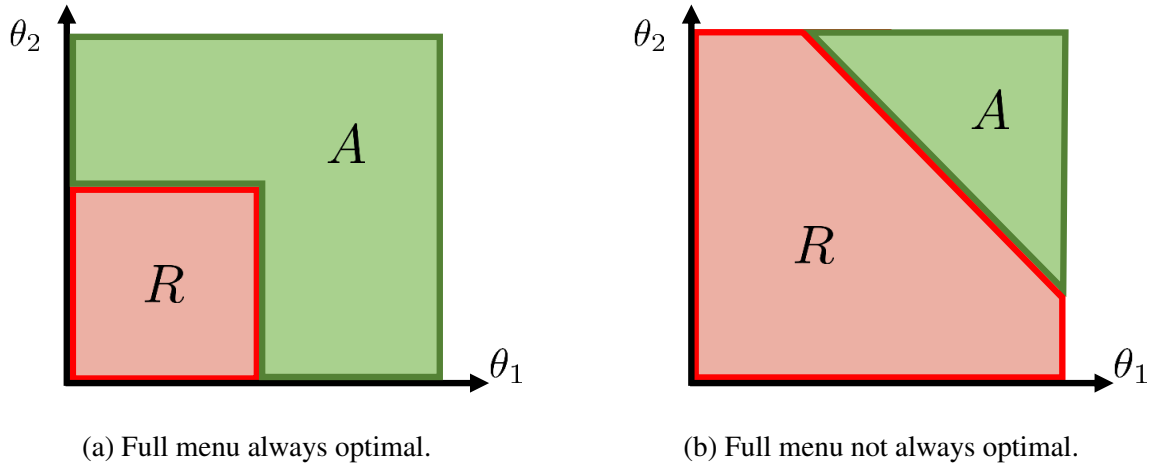


Figure 1: Illustration of DM's preferences for Proposition 7.

Proposition 7. *Suppose we are in a bidimensional environment. Offering a menu $\{t_1, t_2\}$ is strictly optimal for any prior if and only if*

$$\text{for } i = 1, 2, (\bar{\theta}_i, \theta_j) \in A, \text{ for all } \theta_j \in \Theta_j. \quad (2)$$

The proof of Proposition 7 works by showing that a deviation from a single test menu is always profitable when condition (2) is satisfied and constructs a prior under which there are no profitable deviations when the condition is not satisfied.

Figure 1 illustrates the condition of Proposition 7 with $\Theta \subset [0, 1]^2$. In Figure 1a, the DM wants the agent's type to be high enough in at least one dimension. Then the DM always prefers to offer a full menu to the agent. On the other hand, in Figure 1b, the DM does not want to accept a type that is high in only one dimension. In this case, for some prior, the DM only wants to offer one test. This happens when after any deviation from the singleton menu any A -type is mimicked by too many R -types that cannot be distinguished from him.

5 Sufficient conditions for test inclusion

In this section, I study in more details the notion of efficient allocation of tests to the agent's types. I show that a sufficient condition to include a test in the optimal menu is if it is good at differentiating one A -type from all the R -types. This captures a notion of a test tailored for the A -type.

Definition 6. Fix $\theta \in A$. Test t θ -dominates t' , $t \succeq_\theta t'$, if there is $\beta : X \times X \rightarrow [0, 1]$ such that for all $x' \in X$

$$\begin{aligned} \sum_x \beta(x, x') \pi_t(x|\theta) &\leq \pi_{t'}(x'|\theta) \\ \text{for all } \theta' \in R, \quad \sum_x \beta(x, x') \pi_t(x|\theta') &\geq \pi_{t'}(x'|\theta') \\ \text{for all } x \in X, \quad \sum_{x'} \beta(x, x') &\leq 1 \end{aligned}$$

To understand this definition better, compare it to Blackwell (1953)'s informativeness order. It requires the existence of a function β such that for all $x' \in X$, $\sum_x \beta(x, x') \pi_t(x|\theta) = \pi_{t'}(x'|\theta)$ for all $\theta \in \Theta$ and for all $x \in X$, $\sum_{x'} \beta(x, x') = 1$. The key difference is that we restrict attention to one A -type and all the R -types. This captures the idea the test θ -dominant test is tailored to differentiate θ from each R -type. The second difference is that it requires only inequalities whereas the Blackwell order requires equalities. This is because we are fixing the utility function we are interested in, unlike in Blackwell (1953).

If a type $\theta \in A$ has a \succeq_θ -dominant test, then this test is used in an optimal menu. This shows that an important property of tests is not so much how good they are at differentiating types, but how good they are at differentiating one type the DM wants to accept from all the types he wants to reject.

Proposition 8. *Suppose there is $t \in T$ and $\theta \in A$ such that $t \succeq_{\theta} t'$ for all $t' \in T$, then t is part of an optimal menu.*

The stronger notion of a test able to differentiate some $\theta \in A$ from all R -types is if $\text{supp } \pi_t(\cdot|\theta) \cap \left(\bigcup_{\theta' \in R} \text{supp } \pi_t(\cdot|\theta') \right) = \emptyset$. If each type in A has such a test, then the principal never makes a mistake. This condition is also necessary.

Proposition 9. *The principal's expected payoff is $\sum_{\theta \in A} \mu(\theta)$ if and only if for all $\theta \in A$, there exists $t \in T$ such that*

$$\text{supp } \pi_t(\cdot|\theta) \cap \left(\bigcup_{\theta' \in R} \text{supp } \pi_t(\cdot|\theta') \right) = \emptyset$$

Here, the principal just needs for each type he wants to accept a test where he can discriminate between that type and the R -types. Then he can offer a menu of tests where each A -type self selects into the test that discriminates him from the R -types. The actual learning only happens by observing the test selected and the testing technology serves as a detriment to deviations from R -types. The argument is then similar to an unravelling argument à la Milgrom (1981) and Grossman (1981). These are not fully revealing tests but tests that allow to perfectly discriminate *one* A -type from all the R -types. But it could be a very noisy tests for the other A -types.

6 Extension: Communication

I consider here the possibility of adding a communication channel on top of the test choice. I will also relate my results to those of Glazer and Rubinstein (2004) and Carroll and Egorov (2019). There is now a finite set C of output messages with $|C| \geq |A|$ and a strategy is a mapping $\sigma : \Theta \rightarrow \Delta(T \times C)$. Note that all the results from the previous sections go through

as from any finite set T one can create another T' that duplicate each test $|C|$ times. I call this variant of the model the *menu game with communication*.

In line with Theorem 1, each A -type chooses a message-test pair deterministically and each R -type mixes over some A -types message-test pair. Moreover, I show that when communication is added, each type in A announces his type, thus maximally differentiating himself, and each R -type pretends to be an A -type.

Theorem 2. *If communication is allowed, the same construction as Theorem 1 holds. Moreover, there is a DM-preferred equilibrium where each A -type reports his own type.*

Proof. See appendix. □

Theorem 2 shows that the results extend naturally to an environment where communication is allowed. Because the DM could commit to a strategy, he can always guarantee each A -type at least as much as he would have if he would pool with another A -type. This guarantees that there is an equilibrium where he separates from the other A -types.

Note that because each A -type uses a different message and does not mix over tests, the test chosen does not contain any information: $\mu(\theta|c, t) = \mu(\theta|c)$. Thus all the information revealed by the test is through the signal realisations and not the test choice.

In the remainder of this section, I will connect the results developed in this model to the existing literature, and in particular to Glazer and Rubinstein (2004). Consider the following model generalising the one of Glazer and Rubinstein (2004). They consider a model of persuasion and verification where the agent sends a message and the DM chooses a test and a decision based on the message. Formally, the DM designs a mechanism defined by $\tau : C \rightarrow \Delta(T \times [0, 1]^X)$, that is a mechanism commits to a test and a decision for each test and signal realisation for each message. A strategy for the agent is $\delta : \Theta \rightarrow \Delta C$. The

solution concept is weak Perfect Bayesian Equilibrium. In Glazer and Rubinstein (2004), the state space is some multidimensional set and each test in T perfectly reveals one dimension. I will call the mechanism τ a GR-mechanism.

One of the results of Glazer and Rubinstein (2004) is that the outcome of the optimal mechanism τ can be implemented without commitment in a PBE of the following game: the agent chooses a message in C , based on the message, the DM chooses a test and based on the signal realisation and test, the DM accepts or rejects the agent. If the outcome of the optimal GR-mechanism is the same as the one of the game above, I will say that it is credible. I will call that game a GR-game.

The fundamental difference between the Glazer and Rubinstein (2004) model and the one we have studied so far is that it is now the DM that chooses the test and not the agent. But as we will see, if we allow for communication in the menu of test model, this distinction does not matter anymore.

Proposition 10. *The outcome of an optimal GR-mechanism is credible for any T . Moreover, its outcome coincides with the optimal menu game with communication.*

This proposition generalises the commitment result of Glazer and Rubinstein (2004) to an arbitrary testing technology and type structure. Moreover, it shows that when there is communication, who chooses the test is not important. To understand this better, let us first note the dual role of test choice in the model without communication. In this case, the test is used both to communicate to the DM and to provide evidence which type the agent is. When we add communication on top of the menu of test, all the communication is through the cheap-talk message and the test is only used to provide evidence about the type.

Now consider the zero-sum game characterisation of the optimal menu, and in particular the payoffs of the A -types. Remember that in the zero-sum game, the A -types were maximising

the DM's payoffs. Combined with the fact that the test choice does not carry additional information, we can let the DM choose it. If it was optimal for A -types to choose test t after message c , it will also be for the DM.

Carroll and Egorov (2019) study a similar model as Glazer and Rubinstein (2004), multidimensional types with the testing technology revealing one dimension, but with a different agent payoff function. They study under which condition on the agent's payoffs there is full information revelation. They show that when there is full information revelation and some technical conditions are satisfied, the mechanism can be implemented by having the agent choosing the test, a parallel result to Proposition 10. Thus I show that the equivalence result they have also applies to other environments and is not a feature of full information revelation and their testing technology.

7 Concluding remarks

I study the design of optimal menus of tests. Menus allow the DM to have an additional dimension for information revelation as well as allow for a more efficient allocation of tests to the agent's types. I provide a characterisation of the optimal menu in terms of an auxiliary zero-sum game. One advantage of this characterisation is that it does not rely on any structure on types or tests. While proving this result, I also show that the characterisation holds for a general class of mechanisms allocating agent to tests.

In applications, I show that using a menu can be a powerful tool, and even a dominated test, in the Blackwell sense, can be part of the optimal menu. However, this channel also has limits and I show that in some natural economic environments the optimal menu is a singleton. All the results also hold when the DM can commit to an action. I interpreted this result as a hierarchy over information sources: even when the DM can use a suboptimal strategy to

“artificially” incentivise the agent to choose different tests, he is better off using a menu only when he can best reply to the information revealed.

Results for the optimality of the inclusion of some tests, like Proposition 5 and Proposition 8, reveal an interesting asymmetry between types. They are comparing properties of a test or acceptance probability of one or some A -type to those of all the R -types. This asymmetry between the R -types and the A -types is due to their different incentives to separate as reflected by their strategy in the auxiliary zero-sum game. While an A -type wants to be singled-out by choosing a different test, the R -types want to “hide behind” A -types and only choose to mimic them. Proposition 5 and Proposition 8 provide conditions under which an A -type is better off deviating to a new test while providing limited incentives to the R -types to mimic him.

Finally, I show that adding a communication channel links the current model to existing models in the literature and generalises their results. Adding the communication highlights the role of tests when there is no communication. Without communication, the tests also serve as a communication channel. When communication is allowed, the test choice does not add any information beyond the test results. The DM is thus as well off choosing the test himself following the cheap-talk message.

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A Omitted proofs

A.1 Proof of Theorem 1

The plan of the proof is the following. First, I characterise the optimal mechanism, where a mechanism maps an input message to a distribution over tests. Because an equilibrium of the menu game can be implemented by a mechanism, the payoffs from the optimal mechanism are weakly greater than the payoffs from any optimal menu. In the second part of the proof, I show that the optimal mechanism can be implemented by posting a menu. In the proof, I will refer to a distribution over test as an allocation.

By standard arguments, a direct truthful mechanism is without loss of generality. A direct mechanism is a mapping $\tilde{\sigma} : \Theta \rightarrow \Delta T$. The designer's problem is

$$\begin{aligned} \tilde{V} = \max_{\tilde{\sigma}, \alpha} & \sum_{\theta \in A} \mu(\theta) \sum_t \tilde{\sigma}(t|\theta) p_t(\alpha; \theta\theta) - \sum_{\theta \in R} \mu(\theta) \sum_t \tilde{\sigma}(t|\theta) p_t(\alpha; \theta) \\ \text{s.t.} & \sum_t (\tilde{\sigma}(t|\theta) - \tilde{\sigma}(t|\theta')) p_t(\alpha; \theta) \geq 0 \text{ for all } \theta, \theta' \\ & \sum_t \tilde{\sigma}(t|\theta) = 1 \text{ for all } \theta \\ & \alpha \in BR(\tilde{\sigma}) \end{aligned}$$

The first constraint is the incentive compatibility constraint of type θ deviating to θ' , the second guarantees that an allocation is well-defined and the last constraint ensures that the DM best replies to the information revealed by the output of the mechanism.

Note that any equilibrium in the menu game is incentive compatible and therefore a solution to \tilde{V} gives weakly higher expected payoffs to the DM.

If the DM could commit over a strategy α , his problem would be

$$\begin{aligned}\tilde{V}(\alpha) = \max_{\tilde{\sigma}} & \sum_{\theta \in A} \mu(\theta) \sum_t \tilde{\sigma}(t|\theta) p_t(\alpha; \theta) - \sum_{\theta \in R} \mu(\theta) \sum_t \tilde{\sigma}(t|\theta) p_t(\alpha; \theta) \\ \text{s.t.} & \sum_t (\tilde{\sigma}(t|\theta) - \tilde{\sigma}(t|\theta')) p_t(\alpha; \theta) \geq 0 \text{ for all } \theta, \theta' \\ & \sum_t \tilde{\sigma}(t|\theta) = 1 \text{ for all } \theta\end{aligned}$$

We have that $\max_{\alpha} V(\alpha) \geq \tilde{V}$ as the DM could always commit to the strategy used to get \tilde{V} .

Show that $\tilde{V}(\alpha) = \max_s \min_m v(\alpha, s, m)$ where v is defined in (1).

The dual problem of $\tilde{V}(\alpha)$ is

$$\begin{aligned}\min_{y_{\theta, \theta'}, z_{\theta}} & \sum_{\theta} z_{\theta} \\ \text{s.t. for } \theta \in A, t : & -p_t(\alpha; \theta) \sum_{\theta'} y_{\theta, \theta'} + \sum_{\theta'} p_t(\alpha; \theta') y_{\theta', \theta} + z_{\theta} \geq \mu(\theta) p_t(\alpha \theta) \\ \text{for } \theta \in R, t : & -p_t(\alpha; \theta) \sum_{\theta'} y_{\theta, \theta'} + \sum_{\theta'} p_t(\alpha; \theta') y_{\theta', \theta} + z_{\theta} \geq -\mu(\theta) p_t(\alpha \theta) \\ & y_{\theta, \theta'} \geq 0, \quad z_{\theta} \in \mathbb{R}\end{aligned}$$

Note that $y_{\theta, \theta'}$ is the dual variable associated to the IC constraint of type θ deviating to θ' and z_{θ} the dual variable associated with the feasibility constraint of type θ .

I will show that for any α , the solution to $\tilde{V}(\alpha)$ can be characterised by an equilibrium of the zero-sum game by verifying that this solution is feasible and satisfy the complementary slackness conditions. To this end I will

1. Guess values for $\tilde{\sigma}, y, z$.

2. Verify that the guessed variables satisfy the constraints of their respective problem, i.e., are feasible.
3. Verify complementary slackness conditions.

If variables are feasible and satisfy complementary slackness then they are optimal (see e.g., Bertsimas and Tsitsiklis, 1997, Theorem 4.5).

Take an equilibrium of the zero-sum game fixing α , (s, m) , i.e., $s \in \arg \max \min_m v(\alpha, \tilde{s}, m)$ and $m \in \arg \min \max_s v(\alpha, s, m')$.

Guess

- $y_{\theta, \theta'} = 0$ for $\theta \in A$
- $y_{\theta', \theta} = 0$ for $\theta', \theta \in R$
- $y_{\theta', \theta} = \mu(\theta')m(\theta|\theta')$ for $\theta' \in R, \theta \in A$
- $z_{\theta'} = 0$ for $\theta' \in R$
- $z_{\theta} = \mu(\theta)\pi_{t^{\theta}}(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')\pi_{t^{\theta}}(\alpha; \theta')$ for some $t^{\theta} \in \text{supp } s(\cdot|\theta)$ for $\theta \in A$
- $\tilde{\sigma}(t|\theta) = s(t|\theta)$ for $\theta \in A$
- $\tilde{\sigma}(t|\theta') = \sum_{\theta \in A} m(\theta|\theta')s(t|\theta)$ for $\theta' \in R$

Feasibility in the dual problem: Plugging in these guessed values in the constraints of the dual problem, we get for the constraints $(\theta \in R, t)$,

$$-p_t(\alpha; \theta) \sum_{\theta' \in A} \mu(\theta)m(\theta'|\theta) \geq -\mu(\theta)p_t(\alpha; \theta)$$

which holds with equality because $\sum_{\theta' \in A} m(\theta'|\theta) = 1$.

For the constraints $(\theta \in A, t)$, plugging in the guessed values gives

$$\mu(\theta)\pi_{t^\theta}(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')\pi_{t^\theta}(\alpha; \theta') \geq \mu(\theta)p_t(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_t(\alpha; \theta')$$

which holds because (s, m) is an equilibrium of the zero-sum game and thus t^θ maximises this expression.

Feasibility in the primal problem: The solution $\tilde{\sigma}$ is positive and satisfies $\sum_t \tilde{\sigma}(t|\theta) = 1$ for all θ . We are left to check that it satisfies the IC constraints. Note that any allocation is either the allocation of an A -type or a convex combination of allocations of A -types.

First, I show that the IC constraints of A -types are satisfied. Because (s, m) is an equilibrium of the auxiliary game, any $\theta \in A$ must be weakly worse off mimicking another A -type, $\tilde{\theta}$, in the auxiliary game:

$$\begin{aligned} \sum_t s(t|\theta) \left[\mu(\theta)p_t(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_t(\alpha; \theta') \right] &\geq \sum_t s(t|\tilde{\theta}) \left[\mu(\theta)p_t(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_t(\alpha; \theta') \right] \\ \Leftrightarrow \mu(\theta) \sum_t (s(t|\theta) - s(t|\tilde{\theta}))p_t(\alpha; \theta) &\geq \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta') \sum_t (s(t|\theta) - s(t|\tilde{\theta}))p_t(\alpha; \theta') \end{aligned}$$

Note that the LHS is the IC constraint of θ deviating to $\tilde{\theta}$ and the RHS is positive. Indeed, whenever $\sum_t (s(t|\theta) - s(t|\tilde{\theta}))p_t(\alpha; \theta') < 0$, we have $m(\theta|\theta') = 0$. Therefore the IC constraints of an A -type deviating to an A -type are satisfied. Because the $\tilde{\sigma}(t|\theta')$ for $\theta' \in R$ is a convex combination of A -type allocation, all the IC constraints of A -types are satisfied.

For the IC constraint of R -types, note that any R -type is indifferent between reporting his type and reporting an A -type he is mimicking in the zero-sum game. He also weakly prefers reporting his own type over an A -type he is not mimicking. Thus there are no deviations to A -types. Because any other allocation of an R -type is a convex combination of allocation of A -types, no R -type is willing to report another R -type.

Complementary slackness conditions: Complementary slackness conditions are: if a variable in the primal or dual problem is strictly positive, then the corresponding constraint must be binding.

The dual variables y is strictly positive if and only if $\theta \in A$, $\theta' \in R$ and $m(\theta|\theta') > 0$. The corresponding IC constraint is θ' deviating to θ . But in that case the IC constraint binds as mimicking θ maximises the probability of being accepted in the zero-sum game and thus θ' gets the same expected probability of being as if he would get θ 's distribution.

On the other hand the dual constraints are only slack for $(\theta \in A, t)$ such that

$$\mu(\theta)\pi_{t\theta}(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')\pi_{t\theta}(\alpha; \theta') > \mu(\theta)p_t(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_t(\alpha; \theta')$$

In this case $\tilde{s}(t|\theta) = 0$ as $s(t|\theta) = 0$. Therefore, the complementary slackness conditions are satisfied and we have characterised an optimal mechanism when the DM commits to α .

Remember that $v(\alpha, s, m) = \sum_t \sum_{\theta \in A} s(t|\theta) [\mu(\theta)p_t(\alpha; \theta) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_t(\alpha; \theta')]$ and note that it is the DM's payoff in the induced mechanism. Thus, we can express the value of an optimal mechanism with commitment to α , $\tilde{V}(\alpha) = \max_s \min_m v(\alpha, s, m)$. The optimal value of the DM, when he can commit is therefore $\max_{\alpha} \max_s \min_m v(\alpha, s, m) = \max_{\alpha, s} \min_m v(\alpha, s, m)$.

Show that a saddle-point of v exists and the DM does not benefit from commitment in the optimal mechanism.

Consider the two-players game where player one chooses (s, α) to maximise v and player two chooses m to maximise $-v$. This game satisfies the condition for the existence of a NE in Baye et al. (1993). Indeed, a sufficient condition for the existence of NE is that (1) strategy spaces are a subset of \mathbb{R}^m , (2) v is continuous in all arguments, (3) v is linear in one

player's strategy and (4) there are two players. Condition (2) guarantees diagonal transfer continuity (see Proposition 2 in Baye et al., 1993), conditions (2) and (3) guarantee diagonal transfer quasi-concavity (see Proposition 1(e) in Baye et al., 1993). Together this implies the conditions stated in Theorem 1 in Baye et al. (1993). (For complete definitions see the paper.)

Therefore there is (α^*, s^*, m^*) such that

$$v(\alpha, s, m^*) \leq v(\alpha^*, s^*, m^*) \leq v(\alpha^*, s^*, m)$$

for all α, s, m and $v(\alpha^*, s^*, m^*) = \max_{\alpha, s} \min_m v(\alpha, s, m)$.

Notice that $v(\alpha, s^*, m^*) \leq v(\alpha^*, s^*, m^*)$ for all α . Because v is the DM's expected utility and s^*, m^* induce the optimal mechanism, $\alpha^* \in BR(\tilde{\sigma}^*)$ where $\tilde{\sigma}^*$ is the mechanism induced by (s^*, m^*) .

Show that an optimal mechanism can be implemented by posting a menu.

Lemma 2. *Take a saddle-point of v , $((\alpha, s), m)$. If $s(\cdot|\theta)$ is in pure strategy for all $\theta \in A$, then the optimal mechanism $\tilde{\sigma}$ with DM strategy α is implementable by posting a menu where the strategies are*

- for $\theta \in A : \sigma(t|\theta) = s(t|\theta)$
- for $\theta' \in R : \sigma(t|\theta') = \sum_{\theta \in A} m(\theta|\theta') s(t|\theta)$
- the DM's strategy is α .

Moreover, the DM does not benefit from committing to α .

Proof. Note that the strategies σ are the same as the outcome of the optimal mechanism $\tilde{\sigma}$ when the DM strategy is α .

Optimal mechanism is implementable with a menu.

The menu posted by the DM is $M = \cup_{\theta \in A} \text{supp } s(\cdot|\theta)$. To prove the result, we simply need to show that the pair (σ, α) is a PBE in the game when the menu M is posted. Let t^θ be the test chosen by type $\theta \in A$.

The incentive compatibility constraint of type $\theta \in A$ deviating to $\tilde{\theta} \in A$ in the optimal mechanism implies

$$\pi_{t^\theta}(\alpha; \theta) \geq \pi_{t^{\tilde{\theta}}}(\alpha; \theta)$$

for any $\tilde{\theta} \in A$. Thus $\theta \in A$ prefers t^θ to any other $t' \in M$.

The incentive compatibility constraint of type $\theta' \in R$ deviating to $\tilde{\theta} \in A$ in the optimal mechanism implies

$$\sum_t \sigma(t|\theta') p_t(\alpha; \theta') = \sum_t \sum_{\theta \in A} m(\theta|\theta') s(t|\theta) p_t(\alpha; \theta') \geq \pi_{t^{\tilde{\theta}}}(\alpha; \theta')$$

which again implies that $\sum_t \sigma(t|\theta') p_t(\alpha; \theta') \geq p_{t'}(\alpha; \theta')$ for all $t' \in M$.

Because $((\alpha, s), m)$ is a saddle-point of v ,

$$v(\alpha, s, m) \geq v(\alpha', s, m)$$

for all α' . Because v is the DM's payoffs and (s, m) induce the strategies in the equilibrium of the menu game, the DM's strategy is a best-reply. Note that this holds on- and off-path.

On-path, beliefs are pinned down by the strategy σ , the tests π_t and the prior. Off-path, we can choose a belief $\tilde{\mu}(\cdot|t, x)$ such that $\alpha(t, x)$ is a best-reply to $\tilde{\mu}$.

This conclude the description of the PBE.

No benefit to commitment.

This follows from the fact that the DM does not benefit from commitment in the optimal mechanism and that the payoffs from the optimal menu without commitment are the same as in the optimal mechanism with commitment. Given that the payoffs from the optimal mechanism with commitment are always weakly higher than the optimal menu with commitment, the DM does not benefit from commitment to α in the optimal menu. \square

Lemma 3. *For any α , there is $s^* \in \arg \max_s \min_m v(\alpha, s, m)$ such that $s^*(\cdot|\theta)$ is in pure strategy for all $\theta \in A$.*

Proof. Suppose there is $s^* \in \arg \max_s \min_m v(\alpha, s, m)$ such that for some $\theta \in A$, and $t, t' \in T$, $s^*(t|\theta), s^*(t'|\theta) > 0$.

Assume first that for any t, t' , and $Z \subseteq R$,

$$\mu(\theta)p_t(\alpha; \theta) - \sum_{\theta' \in Z} \mu(\theta')p_t(\alpha; \theta') \neq \mu(\theta)p_{t'}(\alpha; \theta) - \sum_{\theta' \in Z} \mu(\theta')p_{t'}(\alpha; \theta') \quad (3)$$

Note that if $s^* \in \arg \max_s \min_m v(\alpha, s, m)$, it has to be optimal for any selection of $\arg \min_m v(\alpha, s, m)$.

Take the selection, for all $\theta' \in R$,

$$m(\theta|\theta') = 1 \Leftrightarrow \sum_t s(t|\theta)p_t(\alpha; \theta') \geq \sum_t s(t|\tilde{\theta})p_t(\alpha; \theta'), \text{ for all } \tilde{\theta} \in A$$

that is, whenever mimicking θ is a best-reply for $\theta' \in R$, that type mimics θ with probability one. Because payoffs are linear, this is a best-reply. Now note that when θ evaluates his payoffs with respect to that selection, any $\theta' \in R$ that does not mimic him, strictly prefers another type. Moreover, by condition (3), type θ strictly benefits from putting $\epsilon > 0$ more weight on either t or t' for ϵ small enough. Indeed by changing the weight a little bit, he can increase his payoff and if ϵ is small enough no new type $\theta' \in R$ wants to mimic him. So this is a profitable deviation.

Now note that any payoffs satisfying condition (3) defines a dense subset of the payoff space, $(p_t(\alpha; \theta)_{t \in T, \theta \in \Theta})$, using the usual metric for \mathbb{R}^n . Indeed, condition (3) is a finite system of inequalities and perturbation to $p_t(\alpha; \theta)$ upsets any equality. Take a sequence in the payoff space such that for any member of the sequence, condition (3) is satisfied such that the sequence converges to an element of the payoff space where condition (3) is not satisfied. Take an associated sequence of $s^{*,n} \in \arg \max_s \min_m v^n(\alpha, s, m)$ where n indexes the sequence. ($s^{*,n}$ is a bounded sequence in a closed subset of \mathbb{R}^n so it admits a converging subsequence. This subsequence contains only pure strategies so it must converge to a pure strategy. By upper hemicontinuity of the Nash Equilibrium correspondence, the limit is a Nash Equilibrium and thus there is $s^* \in \arg \max_s \min_m v(\alpha, s, m)$ in pure strategy for any payoff. \square

A.2 Proof of Lemma 1

Because $t \succeq t'$ implies $t \succeq_\theta t'$ for some $\theta \in A$, Lemma 1 is a corollary of Proposition 8 proven below.

A.3 Proof of Proposition 1 and Proposition 2

Suppose the DM's preferences are single-peaked given \succeq_t . Suppose there is a menu with both t, t' . Take $A_1, A_2 \in A$ with $A_1 < A_2$ and without loss of generality, suppose A_1 chooses t' and A_2 chooses t in some equilibrium. Let α denote the DM equilibrium strategy in this equilibrium.

Because $t \succeq t'$, there is $\beta : X \times X \rightarrow [0, 1]$ such that $p_{t'}(\tilde{x}|\theta) = \beta(x, \tilde{x})\pi_t(x|\theta) +$

$\beta(x', \tilde{x})\pi_t(x'|\theta)$ and $\sum_x \beta(\tilde{x}, x) = 1$ for $\tilde{x} = x, x'$. Type $\theta \in \Theta$ prefers test t' over t if

$$\begin{aligned} & \alpha(x_1, t') \left(\beta(x_1, x_1)\pi_t(x_1|\theta) + \beta(x_0, x_1)\pi_t(x_0|\theta) \right) \\ & + \alpha(x_0, t') \left(\beta(x_1, x_0)\pi_t(x_1|\theta) + \beta(x_0, x_0)\pi_t(x_0|\theta) \right) - \alpha(x_1, t)\pi_t(x_1|\theta) - \alpha(x_0, t)\pi_t(x_0|\theta) \geq 0 \end{aligned}$$

Note that this expression is monotonic in θ . Indeed, if $\pi_t(x_0|\theta) > 0$, then dividing by $\pi_t(x_0|\theta)$ gives

$$\begin{aligned} & \alpha(x_1, t') \left(\beta(x_1, x_1) \frac{\pi_t(x_1|\theta)}{\pi_t(x_0|\theta)} + \beta(x_0, x_1) \right) + \alpha(x_0, t') \left(\beta(x_1, x_0) \frac{\pi_t(x_1|\theta)}{\pi_t(x_0|\theta)} + \beta(x_0, x_0) \right) \\ & - \alpha(x_1, t) \frac{\pi_t(x_1|\theta)}{\pi_t(x_0|\theta)} - \alpha(x_0, t) \end{aligned}$$

which is linear in $\frac{\pi_t(x_1|\theta)}{\pi_t(x_0|\theta)}$, an increasing function of θ . If $\pi_t(x_0|\theta) = 0$, then $\pi_t(x_0|\theta') = 0$ for all $\theta' > \theta$ and the expression is constant.

To have A_1 choose t' and A_2 choose t , it must be strictly decreasing⁸ in θ , i.e.,

$$\alpha(x_1, t')\beta(x_1, x_1) + \alpha(x_0, t')\beta(x_1, x_0) - \alpha(x_1, t) < 0 \quad (4)$$

A necessary condition for (4) to hold is that $\alpha(x_1, t) > 0$. Note the strict monotonicity also implies that there is $\bar{\theta} \in A$ such that any $\theta > \bar{\theta}$ prefers t and any $\theta \leq \bar{\theta}$ prefers t' . Let $A^+ = \{\theta \in A : \theta > \bar{\theta}\}$ and $R^+ = \{\theta \in R : \theta > \theta', \text{ for all } \theta' \in A\}$. But because only types in $A^+ \cup R^+$ choose t , the likelihood ratios $\frac{\pi_t(x_1|\theta)}{\pi_t(x_1|\theta')} < \frac{\pi_t(x_0|\theta)}{\pi_t(x_0|\theta')}$ for any $\theta \in A^+, \theta' \in R^+$ and $\alpha(x_1, t) > 0$ imply that $\alpha(x_0, t) = 1$ (Milgrom, 1981).

⁸If all types are indifferent between t and t' then it is also an equilibrium to offer only t and the DM's payoffs are the same.

But then no type ever prefer t' over t . Indeed, the condition to prefer t' over t ,

$$\begin{aligned} & \left(\alpha(x_1, t')\beta(x_1, x_1) + \alpha(x_0, t')\beta(x_1, x_0) - \alpha(x_1, t) \right) \pi_t(x_1|\theta) \\ & \geq \left(1 - \alpha(x_1, t')\beta(x_0, x_1) - \alpha(x_0, t')\beta(x_0, x_0) \right) \pi_t(x_0|\theta) \end{aligned}$$

is never satisfied as the LHS is strictly negative because (4) must hold and the RHS is positive because $\beta(x_0, x_1) + \beta(x_0, x_0) = 1$ and $\alpha(\tilde{x}, t') \leq 1$, $\tilde{x} = x_1, x_0$.

Thus there cannot be an equilibrium where another test than t is chosen.

Suppose the DM's preferences are enclosed given \geq_t .

Suppose $(\tilde{\alpha}, \tilde{s}) \in \arg \max \min_m v(\alpha, s, m)$ with $\tilde{s}(t|\theta) = 1$ for all $\theta \in A$.

Suppose the prior is such that when only t is offered, x_0 is rejected and x_1 is accepted. Let $\underline{\theta} = \min\{\theta \in R\}$ where the min is taken with respect to \geq_t .

Then consider the following deviation: take some $t' \neq t$ and let $\alpha(x, t') = \pi_t(x_1|\underline{\theta})$ for all $x \in X$ and $\alpha = \tilde{\alpha}$ otherwise. Because preferences are single-dipped, there is $\theta \in A$ such that $\pi_t(x_1|\theta) < \pi_t(x_1|\underline{\theta})$ and for all $\theta' \in R$, $\pi_t(x_1|\theta') \geq \pi_t(x_1|\underline{\theta})$. Let $s(t'|\theta) = 1$ for that type and $s = \tilde{s}$ otherwise. This deviation is strictly profitable, i.e., $\min_m v(\tilde{\alpha}, \tilde{s}) < \min_m v(\alpha, s, m)$.

Suppose the prior is such that $\tilde{\alpha}(x_1, t) = \tilde{\alpha}(x_0, t) \in \{0, 1\}$ when only t is offered. This means that the DM does not react to information. Let $\alpha(x, t') = \tilde{\alpha}(x, t)$ for some $t' \neq t$ and $s(t'|\theta) = 1$ for some $\theta \in A$ and $s = \tilde{s}$ otherwise. We get $\min_m v(\tilde{\alpha}, \tilde{s}) = \min_m v(\alpha, s, m)$, so it is also an equilibrium.

Suppose that the DM's preferences are not single-peaked given \geq_t .

In this case, it is possible to find $A_1, A_2 \in A$ and $R_1 \in R$ such that $A_1 <_t R_1 <_t A_2$. Let $\mu(\theta) \approx 0$ for $\theta \neq A_1, A_2, R_1$ and be such that x_0 is rejected and x_1 is accepted when only

t is offered. Because t is informative, there is always such prior. Then from the reasoning above the menu $\{t, t'\}$ is strictly better for the DM than $\{t\}$ when only focusing on A_1, A_2, R_1 have positive probability. But because $\mu(\theta) \approx 0$ for $\theta \neq A_1, A_2, R_1$, then the menu $\{t, t'\}$ remains strictly better than $\{t\}$ whatever the behaviour of the other types.

Suppose that the DM's preferences are not enclosed given \geq_t .

If the DM's preferences are not enclosed, then suppose without loss of generality that there is $R_1 \in R$ such that $R_1 \leq_t \theta$ for any $\theta \in \Theta$ (otherwise, simply change the roles of x_1 and x_0).

If for all $\theta \in A$, $\theta =_t R_1$, then preferences are single-peaked and only offering t is optimal.

Suppose it is not the case and take some $A_1, A_2 \in A$ such that $A_1 \geq_t A_1 \geq_t R_1$, with at least one strict inequality. Suppose that for $\theta \neq A_1, A_2, R_1$, $\mu(\theta) \approx 0$. An argument analogue to the proof that single-peakness implies that only t is chosen in equilibrium holds.

A.4 Proof of Proposition 5

Proof. Suppose the DM only uses t and let t' be the coarsened version of t that pools signals in X' . Let $T = \{t, t'\}$. Let $\pi_{t'}(x'|\theta) = \sum_{x \in X'} \pi_t(x|\theta)$ for some $x' \in X'$.

Consider the deviation, $(\tilde{\alpha}, \tilde{s})$: $\tilde{\alpha}(x', t') = \tilde{\alpha}$ and $\tilde{\alpha}(x, \tilde{t}) = \alpha(x, \tilde{t})$ for $x \neq x'$, $\tilde{t} = t, t'$ and $\tilde{s}(t'|\theta) = 1$ if $\sum_{x \in X'} \tilde{\alpha} \pi_t(x|\theta) > \sum_{x \in X'} \alpha(x, t) \pi_t(x|\theta)$ and $\tilde{s}(\cdot|\theta) = s(\cdot|\theta)$ otherwise. We want to show that

$$\begin{aligned} \min_m v(\tilde{\alpha}, \tilde{s}, m) &\geq \min_m v(\alpha, s, m) \\ \Leftrightarrow \sum_{\theta \in A} \sum_{x \in X'} \mu(\theta) [(\tilde{\alpha} - \alpha(x, t)) \pi_t(x|\theta)]^+ &\geq \sum_{\theta' \in R} \sum_{x \in X'} \mu(\theta') [(\tilde{\alpha} - \alpha(x, t)) \pi_t(x|\theta')]^+ \end{aligned}$$

which is exactly the condition in Proposition 5. Note that the strategy of the R -types is to

mimick a type choosing t' iff $\sum_{x \in X'} \tilde{\alpha} \pi_t(x|\theta') > \sum_{x \in X'} \alpha(x, t) \pi_t(x|\theta')$. \square

A.5 Proof of Proposition 3

Proof. Note that in an MLRP environment, the strategy of the DM takes the form of a cutoff strategy. For each test t , there is $x_t \in X$ such that $\alpha(x, t) = 0$ for $x < x_t$, $\alpha(x, t) = 1$ for $x > x_t$ and $\alpha(x_t, t) \in [0, 1]$. From Lemma 1, we know that there is an optimal menu containing the Blackwell most informative test. Because all tests are MLRP and the DM's payoffs satisfy single-crossing condition, the Lehmann order is well-defined and the Blackwell order implies the Lehmann order (Lehmann, 1988; Persico, 2000). Let \succeq^a denote the Lehmann order.

The Lehmann order is defined on continuous information structure. But as outlined in Lehmann (1988), we can always make our conditional probabilities continuous by adding independent uniform between each signal. Let's assume, without loss of generality, that $X = \{1, \dots, n\}$. The new distribution over signal is $\tilde{y}|\theta = \tilde{x}|\theta - u$ where $u \sim U[0, 1]$. Denote by F_t the cdf associated with the new information structure.

We have that $t \succeq^a t'$ if $y^*(\theta, y) \equiv F_t(y^*|\theta) = F_{t'}(y|\theta)$ is nondecreasing in θ for all y (Lehmann, 1988). In particular, this condition implies that if $F_t(y|\theta') \leq (<) F_{t'}(y'|\theta')$ then $F_t(y|\theta) \leq (<) F_{t'}(y'|\theta)$ for all $\theta > \theta'$.

Let α be the optimal strategy and x_t be the cutoff signal associated to each test. To each $(\alpha(\cdot, t), x_t)$ we can associate a $y_t \equiv x_t - \alpha(x_t, t)$.

If t is part of an optimal menu, it must be that there is some $\theta' \in R$ such that $p_t(\alpha; \theta') \geq p_{t'}(\alpha; \theta')$ for all t' . Or put differently, $F_t(y_t|\theta') \leq F_{t'}(y_{t'}|\theta')$ for all t' . But then $F_t(y_t|\theta) \leq F_{t'}(y_{t'}|\theta)$ for all t' and all $\theta > \theta'$, in particular all $\theta \in A$. Therefore all type in A prefer test t as well and there is an equilibrium of the zero-sum game where all types in $\theta \in A$ choose t . (If there is an A -type that is indifferent between t and t' then all types in R must be indifferent

or prefer t' so choosing t is an equilibrium strategy for such A -type.) \square

A.6 Proof of Proposition 6

I first show that if $t > t'$, then $\mu(\cdot|t, x) \succeq_{FOSD} \mu(\cdot|t', x)$ where \succeq_{FOSD} denotes first-order stochastic dominance.

Proof. The proof is similar to the one in Milgrom (1981). Denote by $G_t(\cdot|x)$ the cdf of posterior beliefs after signal x in test t . For all $\theta > \theta'$,

$$\mu(\theta) \frac{\pi_t(x|\theta)}{\pi_t(x|\theta')} \geq \mu(\theta') \frac{\pi_{t'}(x|\theta)}{\pi_{t'}(x|\theta')}$$

Take some $\theta^* \geq \theta'$. Summing over θ , we get

$$\sum_{\theta > \theta^*} \mu(\theta) \frac{\pi_t(x|\theta)}{\pi_t(x|\theta')} \geq \sum_{\theta > \theta^*} \mu(\theta) \frac{\pi_{t'}(x|\theta)}{\pi_{t'}(x|\theta')}$$

Inverting and summing over θ' , we get

$$\frac{\sum_{\theta^* \geq \theta'} \mu(\theta') \pi_t(x|\theta')}{\sum_{\theta > \theta^*} \mu(\theta) \pi_t(x|\theta)} \leq \frac{\sum_{\theta^* \geq \theta'} \mu(\theta') \pi_{t'}(x|\theta')}{\sum_{\theta > \theta^*} \mu(\theta) \pi_{t'}(x|\theta)}$$

which implies

$$\frac{G_t(\theta^*|x)}{1 - G_t(\theta^*|x)} \leq \frac{G_{t'}(\theta^*|x)}{1 - G_{t'}(\theta^*|x)} \Rightarrow G_t(\theta^*|x) \leq G_{t'}(\theta^*|x)$$

\square

The way this proof proceeds is by fixing a menu and dividing tests in two categories: (1) those for which $\alpha(x_0, \tilde{t}) \in (0, 1)$ and $\alpha(x_1, \tilde{t}) = 1$ and (2) $\alpha(x_0, \tilde{t}) = 0$ and $\alpha(x_1, \tilde{t}) \in (0, 1]$.

I exclude the possibility that the DM always accepts or rejects after any signal as it would either be the only test chosen in equilibrium or never chosen. Then, I show that within each category, it is without loss of optimality to have at most one test. It is thus optimal to have at most two tests in the menu. The last part of the proof shows that the resulting menu is dominated by having only one test.

If there are two tests, $t > t'$ such that $\alpha(x_0, \tilde{t}) = 0$ and $\alpha(x_1, \tilde{t}) \in (0, 1]$, I will show that,

$$p_t(\alpha; \theta') \geq p_{t'}(\alpha; \theta') \Rightarrow p_t(\alpha; \theta) \geq p_{t'}(\alpha; \theta) \text{ for all } \theta > \theta'$$

Take two tests such that $\alpha(x_0, \tilde{t}) = 0$, $t > t'$. Let α, α' denote their respective probability of accepting after x_1 . Define $\alpha(\theta) \equiv \alpha(\theta)\pi_t(x_1|\theta) - \alpha'\pi_{t'}(x_1|\theta) = 0$. Rearranging, $\alpha(\theta) = \alpha' \frac{\pi_{t'}(x_1|\theta)}{\pi_t(x_1|\theta)}$. From our assumption on the difficulty environment, $\alpha(\theta)$ is decreasing in θ . If $p_t(\alpha; \theta') \geq p_{t'}(\alpha; \theta')$ for some θ' then $\alpha \geq \alpha(\theta')$. Then $\alpha \geq \alpha(\theta)$ for all $\theta > \theta'$.

In equilibrium, we must have that there is one $\theta' \in R$ that chooses t and thus for all $\theta \in A$, $p_t(\alpha; \theta) \geq p_{t'}(\alpha; \theta)$. Then there is an equilibrium of the zero-sum game where t' is never chosen.

A similar argument can be made for all tests where $\alpha(x_0, \tilde{t}) > 0$.

Thus we conclude that it is without loss of optimality that the optimal menu has at most two tests.

Suppose the optimal menu uses two tests, $t > t'$. I will now show that it must be that $\alpha(x_0, t) \in (0, 1)$ and $\alpha(x_1, t') \in (0, 1)$, i.e., the DM must accept in the hard test when there is a fail grade and only accept in the easy test if there is a pass grade. Suppose it is not the case and denote by α, α' their respective mixing probabilities. Define $\alpha(\theta) \equiv \alpha(\theta)\pi_t(x_1|\theta) - \alpha'\pi_{t'}(x_0|\theta) - \pi_{t'}(x_1|\theta) = 0$, which is equivalent to $\alpha(\theta) = \alpha' \frac{1}{\pi_t(x_1|\theta)} + (1 - \alpha') \frac{\pi_{t'}(x_1|\theta)}{\pi_t(x_1|\theta)}$. Again

from our assumptions, this is decreasing in θ . A type θ chooses t if $\alpha \geq \alpha(\theta)$. Thus if one $\theta \in A$ chooses t all $\theta \in R$ choose t and there is no pooling of A and R -types on t' , or it is payoff equivalent to just offering t . Therefore, $\alpha(x_0, t) \in (0, 1)$ and $\alpha(x_1, t') \in (0, 1)$ for $t > t'$.

If the DM mixes, he must be indifferent and thus we have

$$\begin{aligned} \sum_{\theta \in A} \mu(\theta) \sigma(t|\theta) \pi_t(x_0|\theta) - \sum_{\theta' \in R} \mu(\theta') \sigma(t|\theta') \pi_t(x_0|\theta') &= 0 \\ \sum_{\theta \in A} \mu(\theta) \sigma(t'|\theta) \pi_{t'}(x_1|\theta) - \sum_{\theta' \in R} \mu(\theta') \sigma(t'|\theta') \pi_{t'}(x_1|\theta') &= 0 \end{aligned}$$

In the easy test, because the DM rejects with positive probability after x_1 and rejects for sure after x_0 (as he uses a cutoff strategy), his payoffs from t' is 0, i.e., he does as well as rejecting for sure.

In the hard test, he accepts with some probability after x_0 and thus his payoffs are

$$\sum_{\theta \in A} \mu(\theta) \sigma(t|\theta) - \sum_{\theta' \in R} \mu(\theta') \sigma(t|\theta')$$

that is the payoffs he would get from accepting all types choosing t . Thus the overall payoffs from the menu is $\sum_{\theta \in A} \mu(\theta) \sigma(t|\theta) - \sum_{\theta' \in R} \mu(\theta') \sigma(t|\theta')$. Offering a menu is better than a singleton menu if this value is strictly greater than offering t and following the signal

$$\begin{aligned} \sum_{\theta \in A} \mu(\theta) \sigma(t|\theta) - \sum_{\theta' \in R} \mu(\theta') \sigma(t|\theta') &> \sum_{\theta \in A} \mu(\theta) \pi_t(x_1|\theta) - \sum_{\theta' \in R} \mu(\theta') \pi_t(x_1|\theta') \\ &= \sum_{\theta \in A} \sigma(t|\theta) \mu(\theta) \pi_t(x_1|\theta) + \sum_{\theta \in A} \sigma(t'|\theta) \mu(\theta) \pi_t(x_1|\theta) \\ &\quad - \sum_{\theta' \in R} \sigma(t|\theta') \mu(\theta') \pi_t(x_1|\theta') - \sum_{\theta' \in R} \sigma(t'|\theta') \mu(\theta') \pi_t(x_1|\theta') \end{aligned}$$

We can rearrange and use the indifference condition at (x_0, t) to get

$$0 > \sum_{\theta \in A} \sigma(t'|\theta) \mu(\theta) \pi_t(x_1|\theta) - \sum_{\theta' \in R} \sigma(t'|\theta') \mu(\theta) \pi_t(x_1|\theta')$$

Using the indifference condition at (x_1, t') , we can replace 0 on the LHS and get

$$\begin{aligned} \sum_{\theta \in A} \mu(\theta) \sigma(t'|\theta) \pi_{t'}(x_1|\theta) - \sum_{\theta' \in R} \mu(\theta') \sigma(t'|\theta') \pi_{t'}(x_1|\theta') \\ > \sum_{\theta \in A} \sigma(t'|\theta) \mu(\theta) \pi_t(x_1|\theta) - \sum_{\theta' \in R} \sigma(t'|\theta') \mu(\theta) \pi_t(x_1|\theta') \end{aligned}$$

But from the definition of the environment, for all $\theta > \theta'$,

$$\frac{\pi_t(x_1|\theta)}{\pi_t(x_1|\theta')} \geq \frac{\pi_{t'}(x_1|\theta)}{\pi_{t'}(x_1|\theta')}$$

which implies that $\mu(\theta|x_1, t) \succeq_{FOSD} \mu(\theta|x_1, t')$. Thus we get a contradiction.

A.7 Proof of Proposition 7

Suppose condition (2) holds. Suppose $(\alpha, s) \in \arg \max \min_m v(\alpha, s, m)$ and $s(t_j|\theta) = 1$ for all $\theta \in A$. Take $(\tilde{\theta}_i, \tilde{\theta}_j) \in \arg \min_{\theta \in A} p_{t_j}(\alpha; \theta)$. Because $p_{t_j}(\alpha; \theta_i, \theta_j)$ is constant in θ_i , we have $(\bar{\theta}_i, \tilde{\theta}_j) \in \arg \min_{\theta \in \Theta} p_{t_j}(\alpha; \theta)$ as well and from condition (2), $(\bar{\theta}_i, \tilde{\theta}_j) \in A$. Consider the deviation to $(\tilde{\alpha}, \tilde{s})$ such that for t_i ,

- $\tilde{\alpha}(\cdot, t_i)$ is set so that it has a cutoff structure and $p_{t_i}(\tilde{\alpha}|\bar{\theta}_i, \tilde{\theta}_j) = p_{t_j}(\alpha; \bar{\theta}_i, \tilde{\theta}_j)$ and $\tilde{\alpha}(\cdot, t_j) = \alpha(\cdot, t_j)$ otherwise.
- $\tilde{s}(t_i|\bar{\theta}_i, \tilde{\theta}_j) = 1$ and $\tilde{s}(\cdot|\theta) = s(\cdot|\theta)$ otherwise.

Because the test t_i has the strict MLRP when restricting attention to dimension i , for all $\theta_i <$

$\bar{\theta}_i$, $\min_{\theta \in \Theta} p_{t_j}(\alpha; \theta) \geq p_{t_i}(\tilde{\alpha}|\bar{\theta}_i, \theta_j) > p_{t_i}(\tilde{\alpha}|\theta_i, \theta_j)$. This means that mimicking $(\bar{\theta}_i, \tilde{\theta}_j)$ is weakly dominated and $(\bar{\theta}_i, \tilde{\theta}_j)$ has the probability of being accepted. Thus $\min_m v(\alpha, s, m) \leq \min_m v(\tilde{\alpha}, \tilde{s}, m)$.

Suppose condition (2) does not hold.

If condition (2) is not satisfied, then there a dimension, say 1, and $\tilde{\theta}_2 \in \Theta_2$ such that $(\bar{\theta}_1, \tilde{\theta}_2) \in R$. By the definition of the bidimensional environment, this implies that $(\theta_1, \tilde{\theta}_2) \in R$ for all $\theta_1 \in \Theta_1$. Moreover, for all $\theta_2 < \tilde{\theta}_2$ and all $\theta_1 \in \Theta_1$, $(\theta_1, \theta_2) \in R$.

Now suppose μ is such that $\mu(\theta_1, \tilde{\theta}_2) > \sum_{\theta'_2 \neq \theta_2} \mu(\theta_1, \theta'_2)$ for all $\theta_1 \in \Theta_1$. And that $\mu(\theta_1, \theta_2) \approx 0$ for all $(\theta_1, \theta_2) \in R$ such that $\theta_2 > \tilde{\theta}_2$.

I am going to show that $\{t_2\}$ is optimal when t_1 fully reveals dimension 1. Because this test can replicate the strategies of any t_1 , it is enough to prove our claim.

Suppose there is an optimal menu $\{t_1, t_2\}$. From our assumptions on μ , the DM follows a cutoff strategy after t_2 . That's because his payoff is monotone along that dimension, ignoring $(\theta_1, \theta_2) \in R$ such that $\theta_2 > \tilde{\theta}_2$ whose prior probability is close to zero. So it does not upset the cutoff structure of the best-response. This implies that $p_{t_2}(\alpha; \theta_1, \theta_2) > p_{t_2}(\alpha; \theta_1, \tilde{\theta}_2)$ for all $\theta_2 > \tilde{\theta}_2$ because the likelihood ratio is strictly increasing.

Suppose that some $(\theta_1, \tilde{\theta}_2)$ chooses t_1 with probability 1 in equilibrium. Because $\mu(\theta_1, \tilde{\theta}_2) > \sum_{\theta'_2 \neq \theta_2} \mu(\theta_1, \theta'_2)$ for all $\theta_1 \in \Theta_1$, it must be that the best-response is $\alpha(x = \theta_1, t_1) = 0$ (recall that t_1 fully reveals θ_1). Thus $p_{t_2}(\alpha; \theta_1, \theta_2) = 0$ for all $\theta_2 \in \Theta_2$, otherwise there is a profitable deviation. Either this contradicts the fact that the DM best replies or in equilibrium the DM rejects after all signals in every test. But then he is weakly better off only offering t_2 .

Thus to have $\{t_1, t_2\}$ strictly better, it must be that all $(\theta_1, \tilde{\theta}_2)$ choosing t_1 mix in equilibrium. This means that $p_{t_1}(\alpha; \theta_1, \tilde{\theta}_2) = p_{t_1}(\alpha; \theta_1, \tilde{\theta}_2)$. But by the cutoff structure of $\alpha(\cdot, t_2)$, we have

$p_{t_2}(\alpha; \theta_1, \theta_2) \geq p_{t_2}(\alpha; \theta_1, \tilde{\theta}_2)$ for all $\theta_2 > \tilde{\theta}_2$ and $p_{t_2}(\alpha; \theta_1, \theta_2) \leq p_{t_2}(\alpha; \theta_1, \tilde{\theta}_2)$ for all $\theta_2 < \tilde{\theta}_2$.

Thus t_1 is weakly dominated in the auxiliary game for all $(\theta_1, \theta_2) \in A$. Thus choosing only $\{t_2\}$ is an optimal menu.

A.8 Proof of Proposition 8

Proof. I will first prove the following lemma. This result already exists in the literature and I provide a proof for completeness.

Lemma 4. *For any $t \succeq t'$ and $\alpha(\cdot, t')$, there is $\alpha(\cdot, t)$ such that*

$$\begin{aligned} \sum_x \alpha(x, t) \pi_t(x|\theta) &\geq \sum_x \alpha(x, t') \pi_{t'}(x|\theta) \\ \text{for all } \theta' \in R, \quad \sum_x \alpha(x, t) \pi_t(x|\theta') &\leq \sum_x \alpha(x, t') \pi_{t'}(x|\theta') \end{aligned}$$

Proof. We can prove this lemma by using a theorem of the alternative (see e.g., Rockafellar (2015) Section 22). Only one of the following statement is true:

- There exists $\alpha(\cdot, t)$ such that

$$\begin{aligned} \sum_x \alpha(x, t) \pi_t(x|\theta) &\geq \sum_x \alpha(x, t') \pi_{t'}(x|\theta) \\ \text{for all } \theta' \in R, \quad \sum_x \alpha(x, t) \pi_t(x|\theta') &\leq \sum_x \alpha(x, t') \pi_{t'}(x|\theta') \\ \text{for all } x \in X, \quad \alpha(x, t) &\leq 1 \\ \text{for all } x \in X, \quad \alpha(x, t) &\geq 0 \end{aligned}$$

- There exists $z, y \geq 0$ such that

$$\text{for all } x \in X, \quad -z_\theta \pi_t(x|\theta) + \sum_{\theta' \in R} z_{\theta'} \pi_t(x|\theta') + y_x \geq 0 \quad (5)$$

$$-z_\theta \sum_{x'} \alpha(x', t') \pi_{t'}(x'|\theta) + \sum_{\theta' \in R} z_{\theta'} \sum_{x'} \alpha(x', t') \pi_{t'}(x'|\theta') + \sum_{x'} y_{x'} < 0 \quad (6)$$

Take inequality (5) from the second alternative and multiply by $\beta(x, x')$ as described in Definition 6 and sum over $x \in X$:

$$-z_\theta \sum_x \beta(x, x') \pi_t(x|\theta) + \sum_{\theta' \in R} z_{\theta'} \sum_x \beta(x, x') \pi_t(x|\theta') + \sum_x \beta(x, x') y_x \geq 0$$

Because $t \succeq_\theta t'$, we get for all $x' \in X$,

$$-z_\theta \pi_{t'}(x'|\theta) + \sum_{\theta' \in R} z_{\theta'} \pi_{t'}(x'|\theta') + \sum_x \beta(x, x') y_x \geq 0$$

We can then multiply by $\alpha(x', t')$ and sum over $x' \in X$:

$$-z_\theta \sum_{x'} \alpha(x', t') \pi_t(x'|\theta) + \sum_{\theta' \in R} z_{\theta'} \sum_{x'} \alpha(x', t') \pi_{t'}(x'|\theta') + \sum_{x, x'} \alpha(x', t') \beta(x, x') y_x \geq 0 \quad (7)$$

Because $\sum_{x'} \beta(x, x') \leq 1$ and $\alpha(x', t') \leq 1$ for all $x' \in X$, we have $\sum_{x, x'} \alpha(x', t') \beta(x, x') y_x \leq \sum_x y_x$. Therefore, the inequality (6) cannot hold and the first alternative holds. \square

With this result in hand, we can now prove our result. Suppose that t is not part of the optimal menu. Thus we can find an equilibrium of the zero-sum game of Theorem 1, (α, s, m) with $s(t|\theta) = 0$ for all $\theta \in A$. Take a test t' used in equilibrium by some $\theta \in A$. Then from

Lemma 4, we can construct a $\tilde{\alpha}$ such that

$$\begin{aligned} p_t(\tilde{\alpha}; \theta) &\geq p_{t'}(\alpha; \theta) \\ \text{for all } \theta' \in R, \quad p_t(\tilde{\alpha}; \theta') &\leq p_{t'}(\alpha; \theta') \end{aligned}$$

If the first inequality is strict or the second such that $m(\theta'|\theta) > 0$ is strict then we have a strict profitable deviation. Otherwise, we have constructed a new equilibrium of the zero-sum game. □

A.9 Proof of Proposition 9

Proof. (\Leftarrow) For each $\theta \in A$, let t_θ such that

$$\text{supp } \pi_t(\cdot|\theta) \cap \left(\bigcup_{\theta' \in R} \text{supp } \pi_t(\cdot|\theta') \right) = \emptyset$$

Then posting a menu $(t_\theta)_{\theta \in A}$ is optimal (eliminating duplicates if there are some). Each $\theta \in A$ chooses t_θ . For any strategy of $\theta' \in R$, the DM accepts after any $(x, t) \in \bigcup_{\theta: \sigma(t|\theta)=1} \text{supp } \pi_t(\cdot|\theta)$ and rejects otherwise. This gives the DM and the A -types maximal payoffs and the R -types get rejected for any strategy they follow.

(\Rightarrow) Suppose the DM's payoffs are maximal and there is $\theta \in A$ and for all $t \in T$ there is $\theta' \in R$ and $x \in X$ such that $\pi_t(x|\theta), \pi_t(x|\theta') > 0$. Then when θ chooses t out of the menu of tests, if θ' chooses t as well, at x , either the DM accepts θ' or rejects θ . Therefore, payoffs cannot be maximal. □

A.10 Proof of Theorem 2

The only thing we need prove is that it is optimal to have a different message for each type $\theta \in A$, the rest follows from Theorem 1. Suppose it is not the case and take a saddle-point (α, s, m) of the zero-sum game.

There is $\theta_1, \theta_2 \in A$ and $(t, c) \in T \times C$ such that $s(t, c|\theta_1) = s(t, c|\theta_2) = 1$ (if they use a different test then we can also change the message and nothing is changed). Then consider the alternative strategy α' where, for some unused (t, c') in the original mechanism, $\alpha'(t, c', x) = \alpha(t, c, x)$ for all $x \in X$ and $\alpha'(t'', c'', x) = \alpha(t'', c'', x)$ for all other $(t'', c'') \in T \times C$ and all $x \in X$ otherwise. The new strategy α' is thus the same as α but makes sure that if the pair (t, c') is chosen, it uses the same actions as (t, c) . Now consider the following strategy $\tilde{s}(\cdot|\theta)$ for $\theta \in A$ in the auxiliary game, $\tilde{s}(\cdot|\theta) = s(\cdot|\theta)$ for $\theta \neq \theta_1$ and $\tilde{s}(t, c'|\theta_1) = 1$. In the zero-sum game under the strategy α' , the payoffs are the same than under (α, s, m) for all types. Moreover, any deviations under α' gives the same payoff than under α . Therefore, (α', \tilde{s}, m) is an equilibrium of the zero-sum game and $v(\alpha, s, m) = v(\alpha', \tilde{s}, m)$. Either α' is a best response to (\tilde{s}, m) , (α', \tilde{s}, m) is saddle-point of v and characterises an optimal menu. Or, α' is not a best-response and there is $\tilde{\alpha}$ such that $v(\tilde{\alpha}, \tilde{s}, m) > v(\alpha', \tilde{s}, m) = v(\alpha, s, m)$. This would contradict that (α, s, m) is a saddle point of v .

A.11 Proof of Proposition 10

The way this proof proceed is by first arguing that an optimal mechanism $\tilde{\sigma} : \Theta \rightarrow \Delta(T \times C)$ does weakly better than an optimal GR-mechanism, τ . Then I will show that the outcome of the optimal mechanism $\tilde{\sigma}$ can be implemented by a GR-game.

To see the first part, note that a GR-mechanism can be rewritten as a mechanism $\tilde{\tau} : C \rightarrow \Delta(T)$ and a DM-strategy $\tilde{\alpha} : C \times T \times X \rightarrow [0, 1]$. Then we can implement any equilibrium

outcome of $(\tilde{\tau}, \tilde{\alpha}, \delta)$, where δ is the agent's strategy by a mechanism and strategy of the DM, $(\tilde{\sigma}, \alpha)$ by setting $\tilde{\sigma} = \tilde{\tau} \circ \delta$, the composition of the GR-mechanism and the agent's strategy and $\alpha = \tilde{\alpha}$. This does not change the outcome so all the agent's incentives are preserved.

I will now show that the outcome of the menu game with communication can be implemented in a GR-game.

Remember that we have established that in the zero-sum game, all the A -types play a pure strategy and send a different message (Theorem 2). This implies that it is without loss of optimality to decompose the A -types' strategy s in choosing a message $c \in C$, call it $\phi : A \rightarrow C$ and a test for each message, call it $\rho : C \rightarrow T$.

Abusing notation define

$$p_t(\alpha; \theta, c) = \sum_x \alpha(t, x, c) \pi_t(x|\theta)$$

$$v(\alpha, \phi, \rho, m) = \sum_c \mathbb{1}[(t, \theta) : t = \rho(c), c = \phi(\theta)] [\mu(\theta) p_t(\alpha; \theta, c) - \sum_{\theta' \in R} \mu(\theta') m(\theta|\theta') p_t(\alpha; \theta', c)]$$

To understand the new version of v , we sum over all messages and for each message, we select the the test associated with it and the A -type choosing that message.

We get,

$$\min_m \max_{\alpha, s} v(\alpha, s, m) = \max_{\alpha, s} \min_m v(\alpha, s, m) = \max_{\alpha, \phi, \rho} \min_m v(\alpha, \phi, \rho, m) = \min_m \max_{\alpha, \phi, \rho} v(\alpha, \phi, \rho, m)$$

But now observe that we could equivalently interpret ρ as being chosen by the DM as it maximises his payoffs. We are left to check that ϕ and m generate equilibrium strategies.

As before the R -types select an A -type's strategy. Because they are playing a pure strategy,

this is equivalent to choosing an on-path c taking into account that the test will be $t = \phi(c)$ to maximise $p_{t=\phi(c)}(\alpha; \theta', c)$. The A -types choose c if

$$\begin{aligned} \mu(\theta)p_{\phi(c)}(\alpha; \theta, c) - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_{\phi(c)}(\alpha; \theta', c) &\geq \mu(\theta)p_{\phi(c')}(\alpha; \theta, c') \\ &\quad - \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')p_{\phi(c')}(\alpha; \theta', c') \end{aligned}$$

$$\Leftrightarrow \mu(\theta)[p_{\phi(c)}(\alpha; \theta, c) - p_{\phi(c')}(\alpha; \theta, c')] \geq \sum_{\theta' \in R} \mu(\theta')m(\theta|\theta')(p_{\phi(c)}(\alpha; \theta', c) - p_{\phi(c')}(\alpha; \theta', c')) \geq 0$$

where the last line uses the equilibrium behaviour of R -types to get that $m(\theta|\theta')$ implies $p_{\phi(c)}(\alpha; \theta', c) - p_{\phi(c')}(\alpha; \theta', c') \geq 0$.