

Iterative Forward Induction versus Unprejudiced Beliefs

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Abstract

It is well known that multi-sender signaling games have a plethora of equilibria. Bagwell and Ramey (1991) proposes a refinement criterion, called unprejudiced belief, to demonstrate that the no distortion fully revealing equilibrium is the only "plausible" equilibrium which also survives the intuitive criterion. After Bagwell and Ramey (1991), unprejudiced belief refinement is often used in refining equilibria in multi-sender signaling games.

This paper examines the relationship between unprejudiced belief and the standard equilibrium refinements based on Kohlberg and Mertens' (1986) strategic stability. We first show that iterative forward induction in the spirit of Proposition 6 of Kohlberg and Mertens (1986) gives the same prediction as Bagwell and Ramey (1991). However, when senders compete for the receiver, we can find fully revealing equilibria (possibly distorted) which survives our forward induction while unprejudiced fully revealing equilibrium might not exist.