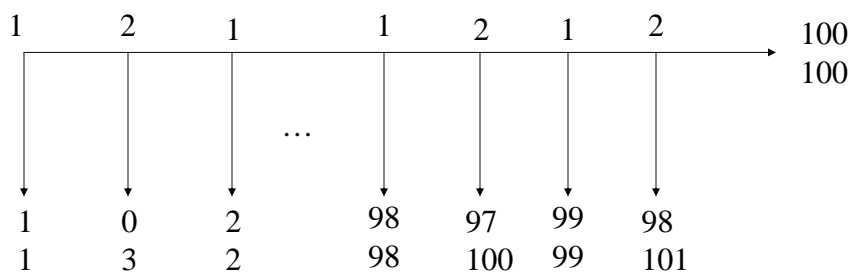


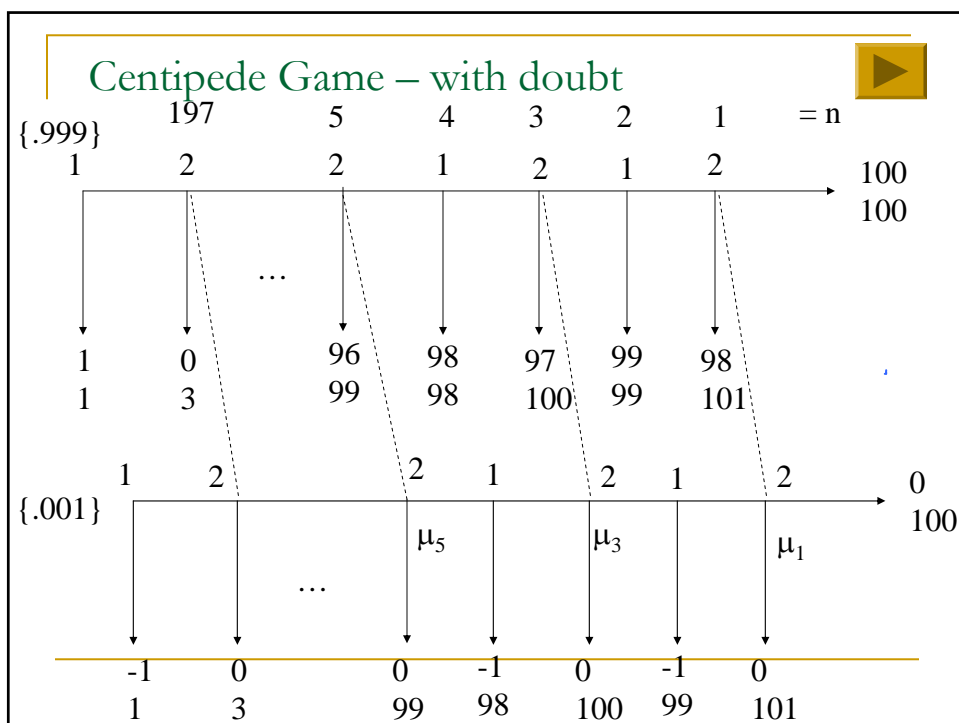
Lecture 9

Reputation Formation

14.123 Microeconomic Theory III
Muhamet Yildiz

Centipede Game





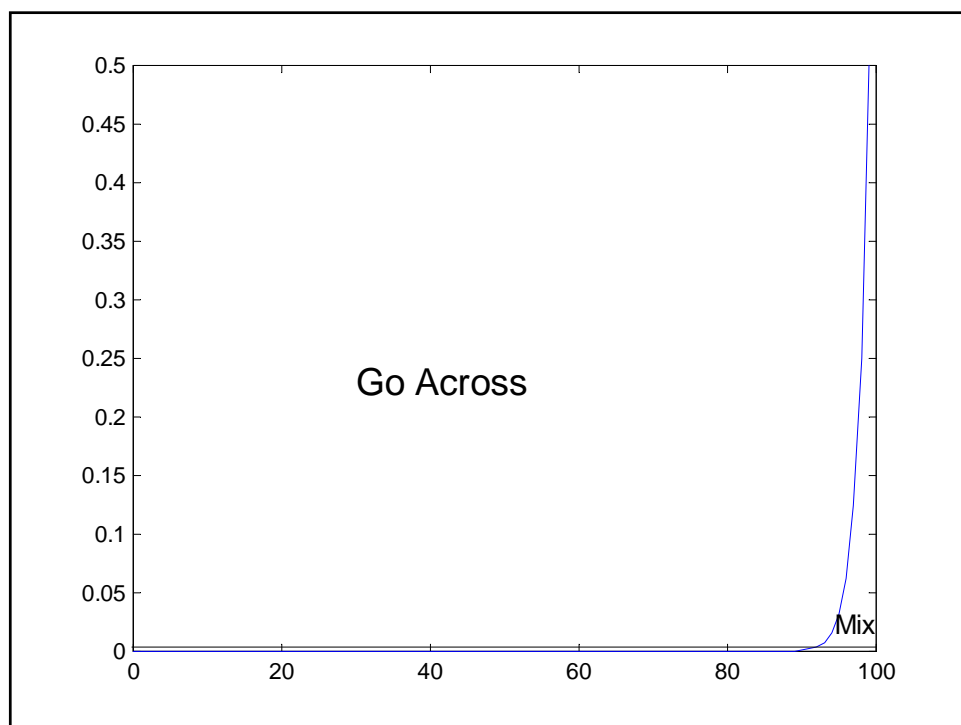
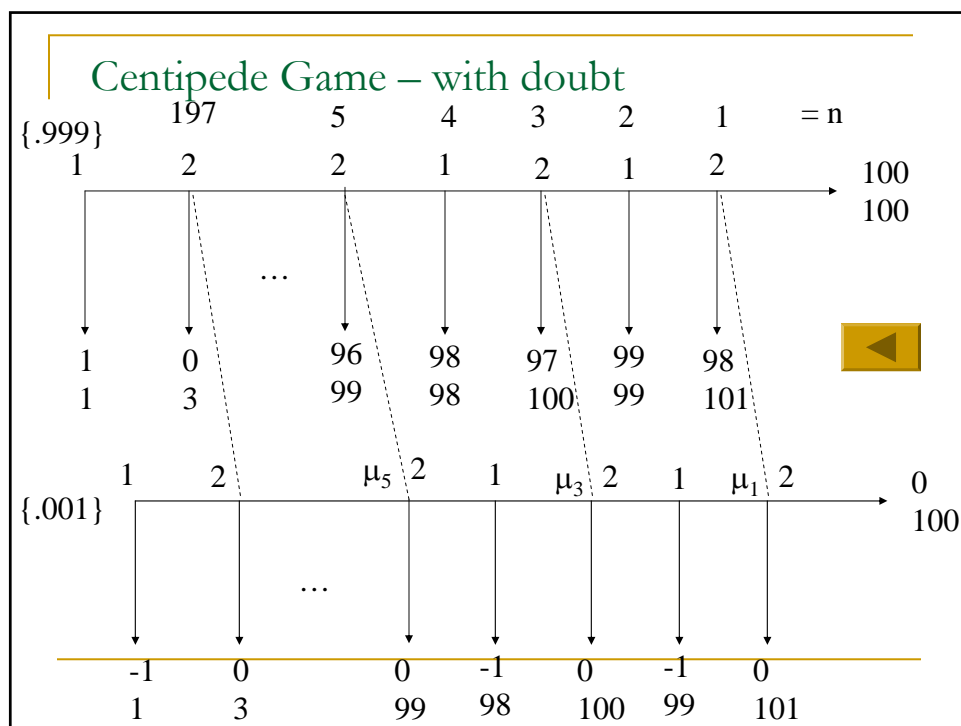
Facts about SE in Centipede

- 2 always goes across with positive probability.
- Every information set of 2 is reached
- If 2 strictly prefers to go across at n , then
 - she must strictly prefer to go across at $n+2$,
 - her posterior at n is her prior.
- For any $n > 2$, 1 goes across with positive probability. If 1 goes across w/p 1 at n , then 2's posterior at $n-1$ is her prior.
- If 2 is mixing at n , then

$$(1 - \mu_n) p_{n-1} = 1/2$$

$$\mu_n = \mu_{n-2}/2$$

- $\mu_n \geq \mu_{n-2}/2$



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