Terms to Know

- Brinkmanship
- Commitment
- Compellence
- Contract
- Deterrence
- Doomsday Device
- Irreversible Action

- Observable Action
- Promise
- Rational Irrationality
- Reputation
- Response Rule
- Salami Tactics
- Strategic Moves
- Threat
Introductory Game 1

- Line up based on the second to the last letter of your first name; ties are decided by a game of rock-paper-scissors where the winner is on the right of the loser.
- Count off from 1 to the number of individuals in the class (N).
- Person 1 will pair up with person N, person 2 will pair up with person N-1, etc.
Introductory Game 1 Cont.

- Play three games of Rock, Paper, Scissors, Spock, Lizard

Rock → Paper → Scissors → Spock → Lizard → Rock

Introductory Game 1 Cont.

- The person who wins the game will get to choose whether he/she wants to be the parent or the teenager.
- The parent is desirous for the teenager to stay home while the teenager would like to go out.
- The parent has two strategies he/she can play: punish and not punish.
- The teenager has the strategies of staying home and going out.
Introductory Game 1 Cont.

- If the parent punishes the teenager for staying home, the parent gets 90 and the teenager gets 70
- If the parent punishes the teenager for going out, the parent gets 40 and the teenager gets 90
- If the parent does not punish the teenager for staying home, the parent gets 100 and the teenager gets 90
- If the parent does not punish the teenager for going out, the parent gets 60 and the teenager gets 110
The parent also has the ability to take away up to 70 points from the teenager, but will also have to give up \( \frac{1}{2} \) of what he/she takes away from the teenager.

The parent also has the ability to give the teenager up to 40 points which means the parent loses what he/she offers.

The parent and teenager will have ten minutes do decide what each is going to do.
Introductory Game 1 Cont.

- After the time is up, each will go to opposite sides of the room and write-up each’s decision—on the paper you need to write your name, your role, your decisions, and for parents any commitments, promises or threats.

- You will next come together and figure out your payoffs and put them on the piece of paper.

- Turn in your papers.
Discussion

- Did anyone make a commitment? Why or why not?
- Did anyone make a promise? Why or why not?
- Did anyone make a threat? Why or why not?
- Try to relate this scenario to an agribusiness example
Strategic Moves

- This attempts to change the rules of the game to create a new stage of the game where the original game is embedded in the new game.
- In the initial stage of the new game, you manipulate the original game by making commitments, threats, and promises.
- This manipulation is meant to alter the outcome of the original game to your favor.
Strategic Moves Cont.

- It is important to have credibility when you attempt a strategic move.
- Typically, you must perform some action that lends credibility to your strategic move.
Classifying Strategic Moves

- For a strategic move to be credible, it typically needs to be observable and irreversible.
- One way to achieve an observable and irreversible move is to make a commitment to an action which is an unconditional strategic move.
- A commitment can give you a first-mover advantage in the game.
Classifying Strategic Moves Cont.

- You could set-up a response rule or reaction function that tells the other players how you will act based on the decisions that they make which is a form of conditional strategic moves.

- Your response rule can be based on threats, which negatively affect the other players payoffs, or promises that positively affect the other players.
How to Make Strategic Moves Credible

- Remove actions that may tempt you to not follow through on a threat or promise
- Create a penalty to yourself for taking actions that tempt you to not follow through on your threats or promises
Commitments

- For a commitment to be credible, the action of the player must occur before the other players take action, be observable, and be irreversible
- Why these three elements?
Threats and Promises

- A threat punishes the other players, while a promise rewards them.
- These are conditional actions that explain what you will do if you see others taking certain actions.
- Each of these responses may lead to deterrence or compellence.
Threats and Promises Cont.

- As a player you would prefer that other players not use threats and instead use promises
- A threat can be changed into a promise by changing what the status quo is
Deterrence Versus Compellence

- Deterrence is when you want another player to not take a particular action that they would want to do, while compellence is when you want others to do an action that they would rather not do.
- You can have deterrent promises, deterrent threats, compellence promises, and compellence threats.
Deterrence Versus Compellence

- A deterrent threat can be passive because you do not have to do anything if the individual does the desired action and it does not need a deadline.

- Compellence need deadlines to check for compliance of actions.
Ways to Acquire Credibility

- Reduce your freedom of action by:
  - Giving the decision to a mechanical device or delegate the decision to another that must follow your wishes from stage 1
  - Burning bridges
  - Cut lines of communication after sending a message of commitment
Ways to Acquire Credibility Cont.

- Change your payoffs by:
  - Having a reputation for following through on threats and keeping promises
  - Dividing the game into small steps to gain reputation
  - Using teams to help enforce credibility by having teammates check each other
Ways to Acquire Credibility Cont.

- Change your payoffs by:
  - Using irrationality (rational irrationality)
  - Having a written contract that penalizes yourself by not following through
  - Making the threat a matter of chance (brinkmanship)
Countermoves to Commitments or Threats

- Irrationality
- Cutting off communication
- Open escape routes
- Undermining your opponent’s motive to uphold his reputation
- Salami tactics
Final Discussion, Questions, and Thoughts