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LEMMA
Laboratoire d'économie mathématique et de microéconomie appliquée

SÉMINAIRE

SIMPLE SEQUENTIAL EQUILIBRIA IN GENERIC EXTENSIVE-FORM GAMES AND FORWARD INDUCTION - PETER VIDA

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Abstract:
Fix a finite extensive-form with perfect recall and a behavioral strategy profile which assigns probabilities to actions in each information set. Assign to each history the number of actions with zero probability. A belief is simple if, at every information set, it assigns positive probability only to histories that minimize this number. I prove that, outside a lower-dimensional semi-algebraic subset of the terminal-payoff space, all games have a simple sequential equilibrium. The proof shows that any uniform epsilon-quasi-perfect equilibrium generically induces a sequential equilibrium with simple beliefs. It follows that essential and Mertens-stable outcomes of a given generic extensive-form game can be supported with consistent simple beliefs. Hence, simple beliefs

offer a quick test for stability and essentiality. Coupling forward induction with simple beliefs can be very powerful and testing becomes easier. I discuss the invariance of simple sequential equilibrium outcomes across extensive-form games having the same reduced normal form.