

CONTENTS

<i>List of boxes</i>	xi
<i>Preface</i>	xiii
1 OVERVIEW	1
1.1 Introduction	1
1.1.1 <i>Why study game theory?</i>	1
1.1.2 <i>What is game theory?</i>	2
1.1.3 <i>Why this book?</i>	3
1.1.4 <i>Why a second book?</i>	4
1.1.5 <i>The rest of this chapter</i>	6
1.2 The assumptions of game theory	7
1.2.1 <i>Individual action is instrumentally rational</i>	7
1.2.2 <i>Common knowledge of rationality (CKR)</i>	27
1.2.3 <i>Common priors</i>	28
1.2.4 <i>Action within the rules of the games</i>	31
1.3 Liberal individualism, the state and game theory	33
1.3.1 <i>Methodological individualism</i>	33
1.3.2 <i>Game theory's contribution to liberal individualism</i>	35
1.4 A guide to the rest of the book	36
1.4.1 <i>Three classic games: Hawk–Dove, Co-ordination and the Prisoner's Dilemma</i>	36
1.4.2 <i>Chapter-by-chapter guide</i>	38
1.5 Conclusion	40
2 THE ELEMENTS OF GAME THEORY	41
2.1 Introduction	41
2.2 The representation of strategies, games and information sets	44
2.2.1 <i>Pure and mixed strategies</i>	44
2.2.2 <i>The normal form, the extensive form and the information set</i>	45
2.3 Dominance reasoning	47
2.4 Rationalisable beliefs and actions	52
2.4.1 <i>The successive elimination of strategically inferior moves</i>	52
2.4.2 <i>Rationalisable strategies and their connection with Nash's equilibrium</i>	56
2.5 Nash equilibrium	58
2.5.1 <i>John Nash's beautiful idea</i>	58

CONTENTS

2.5.2	<i>Consistently aligned beliefs, the hidden Principle of Rational Determinacy and the Harsanyi–Aumann doctrine</i>	60
2.5.3	<i>Some objections to Nash: Part I</i>	61
2.6	Nash equilibrium in mixed strategies	68
2.6.1	<i>The scope and derivation of Nash equilibria in mixed strategies</i>	68
2.6.2	<i>The reliance of NEMS on CAB and the Harsanyi doctrine</i>	73
2.6.3	<i>Aumann’s defence of CAB and NEMS</i>	75
2.7	Conclusion	78
	Problems	79
3	BATTLING INDETERMINACY: REFINEMENTS OF NASH’S EQUILIBRIUM IN STATIC AND DYNAMIC GAMES	80
3.1	Introduction	80
3.2	The stability of Nash equilibria	81
3.2.1	<i>Trembling hand perfect Nash equilibria</i>	81
3.2.2	<i>Harsanyi’s Bayesian Nash equilibria and his defence of NEMS</i>	85
3.3	Dynamic games	90
3.3.1	<i>Extensive form and backward induction</i>	90
3.3.2	<i>Subgame perfection, Nash and CKR</i>	92
3.3.3	<i>Sequential equilibria</i>	96
3.3.4	<i>Bayesian learning, sequential equilibrium and the importance of reputation</i>	99
3.3.5	<i>Signalling equilibria</i>	103
3.4	Further refinements	106
3.4.1	<i>Proper equilibria</i>	106
3.4.2	<i>Forward induction</i>	108
3.5	Some logical objections to Nash, Part II	111
3.5.1	<i>A critique of subgame perfection</i>	111
3.5.2	<i>A negative rejoinder (based on the Harsanyi–Aumann doctrine)</i>	114
3.5.3	<i>A positive rejoinder (based on sequential equilibrium)</i>	115
3.5.4	<i>Summary: out-of-equilibrium beliefs, patterned trembles and consistency</i>	117
3.6	Conclusion	118
3.6.1	<i>The status of Nash and Nash refinements</i>	118
3.6.2	<i>In defence of Nash</i>	119
3.6.3	<i>Why has game theory been attracted ‘so uncritically’ to Nash?</i>	122
	Problems	125
4	BARGAINING GAMES: RATIONAL AGREEMENTS, BARGAINING POWER AND THE SOCIAL CONTRACT	127
4.1	Introduction	127
4.2	Credible and incredible talk in simple bargaining games	131
4.3	John Nash’s generic bargaining problem and his axiomatic solution	135
4.3.1	<i>The bargaining problem</i>	135
4.3.2	<i>Nash’s solution – an example</i>	137

CONTENTS

4.3.3	<i>Nash's solution as an equilibrium of fear</i>	140
4.3.4	<i>Nash's axiomatic account</i>	146
4.3.5	<i>Do the axioms apply?</i>	148
4.4	Ariel Rubinstein and the bargaining process: the return of Nash backward induction	150
4.4.1	<i>Rubinstein's solution to the bargaining problem</i>	150
4.4.2	<i>A proof of Rubinstein's theorem</i>	152
4.4.3	<i>The (trembling hand) defence of Rubinstein's solution</i>	160
4.4.4	<i>A final word on Nash, trembling hands and Rubinstein's bargaining solution</i>	163
4.5	Justice in political and moral philosophy	164
4.5.1	<i>The negative result and the opening to Rawls and Nozick</i>	165
4.5.2	<i>Procedures and outcomes (or 'means' and ends) and axiomatic bargaining theory</i>	168
4.6	Conclusion	170
	Problems	171
5	THE PRISONER'S DILEMMA: THE RIDDLE OF CO-OPERATION AND ITS IMPLICATIONS FOR COLLECTIVE AGENCY	172
5.1	Introduction: the state and the game that popularised game theory	172
5.2	Examples of hidden <i>Prisoner's Dilemmas</i> and free riders in social life	175
5.3	Some evidence on how people play the <i>Prisoner's Dilemma</i> and free rider games	180
5.4	Explaining co-operation	185
5.4.1	<i>Kant and morality: is it rational to defect?</i>	185
5.4.2	<i>Altruism</i>	186
5.4.3	<i>Inequality aversion</i>	187
5.4.4	<i>Choosing a co-operative disposition instrumentally</i>	189
5.5	Conditional co-operation in repeated <i>Prisoner's Dilemmas</i>	191
5.5.1	<i>Tit-for-Tat in Axelrod's tournament</i>	191
5.5.2	<i>Tit-for-Tat as a Nash equilibrium strategy when the horizon is unknown</i>	192
5.5.3	<i>Spontaneous public good provision</i>	194
5.5.4	<i>The Folk Theorem and Indeterminacy in indefinitely repeated games</i>	196
5.5.5	<i>Does a finite horizon wreck co-operation? The theory and the evidence</i>	202
5.6	Conclusion: co-operation and the State in Liberal theory	205
5.6.1	<i>Rational co-operation?</i>	205
5.6.2	<i>The debate in Liberal political theory</i>	206
5.6.3	<i>The limits of the Prisoner's Dilemma</i>	209
	Problems	209
6	EVOLUTIONARY GAMES: EVOLUTION, GAMES AND SOCIAL THEORY	211
6.1	Introduction	211
6.1.1	<i>The origins of Evolutionary Game Theory</i>	212
6.1.2	<i>Evolutionary stability and equilibrium: an introduction</i>	214

CONTENTS

6.2	Symmetrical evolution in homogeneous populations	220
6.2.1	<i>Static games</i>	220
6.2.2	<i>Dynamic games</i>	223
6.3	Evolution in heterogeneous populations	227
6.3.1	<i>Asymmetrical (or two-dimensional) evolution and the demise of Nash equilibria in mixed strategies</i>	227
6.3.2	<i>Does Evolutionary Game Theory apply to humans as well as it does to birds, ants, etc.? An experiment with two-dimensional evolution in the Hawk–Dove game</i>	232
6.3.3	<i>Multi-dimensional evolution and the conflict of conventions</i>	236
6.3.4	<i>The origin of conventions and the challenge to methodological individualism</i>	241
6.3.5	<i>The politics of mutations: conventions, inequality and revolt</i>	245
6.3.6	<i>Discriminatory conventions: a brief synopsis</i>	247
6.4	Social evolution: power, morality and history	248
6.4.1	<i>Social versus natural selection</i>	248
6.4.2	<i>Conventions as covert social power</i>	251
6.4.3	<i>The evolution of predictions into moral beliefs: Hume on morality</i>	252
6.4.4	<i>Gender, class and functionalism</i>	255
6.4.5	<i>The evolution of predictions into ideology: Marx against morality</i>	258
6.5	Conclusion	264
	Problems	266
7	PSYCHOLOGICAL GAMES: DEMOLISHING THE DIVIDE BETWEEN MOTIVES AND BELIEFS	267
7.1	Introduction	267
7.2	Different types of ‘other regarding’ motives	268
7.2.1	<i>The ‘other’ regarding motives of Homo Economicus</i>	268
7.2.2	<i>Beliefs as predictions and as motives</i>	269
7.3	The power of normative beliefs	275
7.3.1	<i>Fairness equilibria</i>	275
7.3.2	<i>Computing fairness equilibria</i>	281
7.3.3	<i>An assessment of Rabin</i>	283
7.3.4	<i>An alternative formulation linking entitlements to intentions</i>	285
7.3.5	<i>Team thinking</i>	289
7.4	Psychology and evolution	292
7.4.1	<i>On the origins of normative beliefs: an adaptation to experience</i>	292
7.4.2	<i>On the origins of normative beliefs: the resentment-aversion versus the subversion-proclivity hypotheses</i>	293
7.5	Conclusion: shared praxes, shared meanings	299
	Problems	301
	<i>Postscript</i>	302
	<i>Answers to problems</i>	304

CONTENTS

<i>Notes</i>	334
<i>Bibliography</i>	348
<i>Name index</i>	359
<i>Subject index</i>	362