

Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: Rajiv Vohra, Brown University.

TITLE: **Farsighted Stable Sets**

TIME: 11:30 AM - 01:00 PM

DAY & DATE: Monday , 15th July, 2013

PLACE: Seminar Room 2

Abstract:

Harsanyi (1974) criticized the von Neumann-Morgenstern notion of a stable set on the grounds that it implicitly assumes coalitions to be shortsighted in evaluating their prospects. Accordingly, he proposed a modification of the dominance concept to incorporate farsightedness. However, Harsanyi retained another assumption implicit in the definition of the vN-M stable set, namely that a coalition S can impose any imputation as long as its restriction to S is feasible for S . In particular, there is no restriction on the payoffs of players outside S (other than the requirement that the payoffs to all the layers constitute an imputation). The complete power to arrange the payoffs of players in the complementary coalition is clearly unsatisfactory. While this turns out to be innocuous in the case of the (myopic) vN-M stable set, it is of crucial significance for farsighted dominance; a coalition may be able to engineer a farsighted objection only by allocating payoffs of the complement in a particular way. We propose a modification of Harsanyi's notion to respect coalitional sovereignty and show that the resulting notion of a farsighted stable set can be very different from that of Harsanyi or of von Neumann and Morgenstern.

We provide a necessary and sufficient condition for the existence of a singleton farsighted stable set. This condition is weaker than assuming that the relative interior of the core is non-empty.

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