Contents

	Preface xi	
	Introduction: Understanding Strategic Behavior Bibliographic Notes 4	1
1	Simultaneous Decisionmaking and the Normal Form Game	6
	The Normal Form Game 6 Using Different Games to Compare Legal Regimes 14 The Nash Equilibrium 19 Civil Liability, Accident Law, and Strategic Behavior 24 Legal Rules and the Idea of Strict Dominance 28 Collective Action Problems and the Two-by-Two Game 31 The Problem of Multiple Nash Equilibria 35 Summary 46 Bibliographic Notes 46	
2	Dynamic Interaction and the Extensive Form Game The Extensive Form Game and Backwards Induction 50 A Dynamic Model of Preemption and Strategic Commitment 57 Subgame Perfection 63 Summary 75 Bibliographic Notes 77	50
3	Information Revelation, Disclosure Laws, and Renegotiation	79
	Incorporating Beliefs into the Solution Concept 80 The Perfect Bayesian Equilibrium Solution Concept 83	

viii / Contents

Verifiable Information, Voluntary Disclosure, and the Unraveling Result 89
Disclosure Laws and the Limits of Unraveling 95
Observable Information, Norms, and the Problem of Renegotiation 109
Optimal Incentives and the Need for Renegotiation 112
Limiting the Ability of Parties to Renegotiate 116
Summary 118
Bibliographic Notes 119

4 Signaling, Screening, and Nonverifiable Information

122

Signaling and Screening 122
Modeling Nonverifiable Information 125
Signals and the Effects of Legal Rules 142
Information Revelation and Contract Default Rules 147
Screening and the Role of Legal Rules 153
Summary 156
Bibliographic Notes 157

5 Reputation and Repeated Games

159

Backwards Induction and Its Limits 159
Infinitely Repeated Games, Tacit Collusion, and Folk Theorems 165
Reputation, Predation, and Cooperation 178
Summary 186
Bibliographic Notes 186

6 Collective Action, Embedded Games, and the Limits of Simple Models

188

Collective Action and the Role of Law 189
Embedded Games 191
Understanding the Structure of Large Games 195
Collective Action and Private Information 202
Collective Action Problems in Sequential Decisionmaking 208
Herd Behavior 213
Summary 217
Bibliographic Notes 217

7 Noncooperative Bargaining

219

Modeling the Division of Gains from Trade 219 Legal Rules as Exit Options 224 Bargaining and Corporate Reorganizations 232 Collective Bargaining and Exit Options 237 Summary 241 Bibliographic Notes 241

8 Bargaining and Information

244

Basic Models of the Litigation Process 244
Modeling Separate Trials for Liability and Damages 251
Information and Selection Bias 260
Discovery Rules and Verifiable Information 261
Summary 266
Bibliographic Notes 266

Conclusion: Information and the Limits of Law

268

Notes 275
References 289
Glossary 301
Index 319