09. Dezember 2019
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Communication without cheap cheap talk

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Abstract:

The paper studies the interplay between extrinsic communication costs and intrinsic costs of lying in a two-sided asymmetric information context. There are two types of players: defectors for whom defection is a dominant strategy, and conditional cooperators who want to cooperate if the other player does the same. We consider three treatments: No communication (NC), cheap talk (CT), and a treatment with extrinsic communication costs (F). When taking intrinsic costs of lying into account, the theoretical analysis suggests that the signaling rate will be higher in CT than in F. On the other hand, cooperators react differently to the same signal structure in CT than in F: While with cheap talk they actually cooperate only if both players have sent the signal, with extrinsic communication costs in F they also choose cooperation if only one side signals. Overall, the two effects should cancel out: Contrary to standard signaling models, our model predicts that even moderate extrinsic communication costs should not promote cooperation in presence of intrinsic lying costs. We test this model experimentally, and our data confirm the theoretical predictions qualitatively.