Perfect Foresight Equilibrium Selection in Signaling Games

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Abstract

We study equilibrium selection in signaling games by perfect foresight dynamics. We consider a signaling game of the following properties. The informed player is of high or low productivity, which is her private information. She chooses whether or not to send a costly signal. She receives a wage equal to her expected productivity. If the informed player with high productivity prefers the separating equilibrium to the pooling equilibrium, the separating equilibrium is locally and globally stable. If the preference is reversed and the pooling equilibrium satisfy a condition which is analogous to risk dominance, the pooling equilibrium is locally and globally stable. Finally the Pareto inefficient pooling equilibrium is locally unstable.

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