

A Psychological Motive and the Implementation of Efficient Deposit Contracts

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ABSTRACT

This paper exhibits a positive result on the unique implementation of efficient deposit contracts in the environment that the bank does not know the true state information about efficiency. The role of a bank is to implement an efficient deposit contract, but a realized outcome may be inefficient because the bank (1) does not know the state information; (2) faces a risk about a self-fulfilling bank run. This paper shows that we can construct a mechanism which correctly gathers the information and prevents the bank run, by assuming a mild *psychological motive* for some depositors. As a result, any efficient deposit contract is *uniquely* implementable by iterative deletions of weakly dominated strategies.

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