Finitely Repeated Games with Monitoring Options

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Abstract

We study finitely repeated games where players can decide whether to monitor the other players' actions or not every period. Monitoring is assumed to be costless and private. We compare our model with the standard one where the players automatically monitor each other. Since monitoring other players never hurts, any equilibrium payoff vector of a standard finitely repeated game is an equilibrium payoff vector of the same game with monitoring options. We show that some finitely repeated games with monitoring options have sequential equilibrium outcomes which cannot be sustained under the standard model, even if the stage game has a unique Nash equilibrium. We also present sufficient conditions for a folk theorem, when the players have a long horizon.

JEL Classification: C72, C73.
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