Theoretical Economics 6 (2011), 49–93 1555-7561/20110049

Robustness to incomplete information in repeated games

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This paper extends the framework of Kajii and Morris (1997) to study the question of robustness to incomplete information in repeated games. We show that dynamically robust equilibria can be characterized using a one-shot robustness principle that extends the one-shot deviation principle. Using this result, we compute explicitly the set of dynamically robust equilibrium values in the repeated prisoners' dilemma. We show that robustness requirements have sharp intuitive implications regarding when cooperation can be sustained, what strategies are best suited to sustain cooperation, and how changes in payoffs affect the sustainability of cooperation. We also show that a folk theorem in dynamically robust equilibria holds, but requires stronger identifiability conditions than the pairwise full rank condition of Fudenberg et al. (1994).

Keywords. Robustness to incomplete information, one-shot robustness principle, repeated prisoners' dilemma, selective punishment, folk theorem.

JEL classification. C72, C73, D82.

1. Introduction

This paper formalizes and explores a notion of robustness to incomplete information in repeated games. We characterize dynamically robust equilibria by applying a one-shot robustness principle that extends the one-shot deviation principle. As a corollary, we prove a factorization result analogous to that of Abreu et al. (1990). An important implication of our work is that grim-trigger strategies are not the most robust way to sustain cooperation. In particular, selective-punishment strategies—which punish only the

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We are particularly grateful to Drew Fudenberg, Stephen Morris, Larry Samuelson, and Olivier Tercieux, the editor Jeff Ely, and anonymous referees for comments and advice. We thank Dilip Abreu, Eduardo Faingold, Roger Guesnerie, Johannes Hörner, George Mailath, Marcin Pęski, Wolfgang Pesendorfer, Phil Reny, Yuliy Sannikov, Hugo Sonnenschein, and Muhamet Yildiz as well as seminar participants at Duke, Johns Hopkins, Northwestern, Paris School of Economics, Penn State, Princeton, Rochester, Rutgers, Toronto, UT Austin, the University of Chicago, the University of Pennsylvania, the GRIPS International Workshop, the 2008 Stony Brook Game Theory Festival, and the 2nd Singapore Economic Theory Annual Workshop for helpful conversations. Paul Scott and Takuo Sugaya provided excellent research assistance.

DOI: 10.3982/TE795

most recent offender rather than all players—are more robust than grim-trigger strategies. Concerns of robustness can also change comparative statics. For instance, diminishing payoffs obtained off of the equilibrium path can make cooperation harder to sustain.

Our notion of robustness to incomplete information extends the framework of Kajii and Morris (1997; henceforth KM) to repeated games. Informally, an equilibrium of a repeated game is robust to incomplete information if every perturbed game where payoffs are affected by "small" independent and identically distributed (i.i.d.) incomplete-information shocks admits a "nearby" equilibrium. Sections 3 and 4 formalize this definition by specifying what it means for payoff perturbations to be small and for strategies to be nearby. Following KM, we interpret robust equilibria as those equilibria that remain reasonable predictions even if the underlying environment is misspecified.

Our main theoretical results make analysis tractable by relating the dynamic robustness of equilibria in repeated games to the robustness of one-shot action profiles in appropriate families of static games. In particular, we prove a one-shot robustness principle analogous to the one-shot deviation principle. More precisely, an equilibrium of a repeated game is dynamically robust if and only if, at any history, the prescribed action profile is robust in the stage game augmented with continuation values. In the case of two-by-two stage games, this amounts to requiring that, at any history, the prescribed equilibrium outcome is risk-dominant in the appropriate augmented stage game.[1] Furthermore, this one-shot robustness principle implies a factorization result à la Abreu et al. (1990; henceforth APS). Specifically, equilibrium values sustained by dynamically robust equilibria essentially correspond to the largest fixed point of a robust value mapping that associates future continuation values with current values generated by robust equilibria of corresponding augmented stage games.

Three applications highlight the practical value of these characterizations. First, we study the effect of specific perturbations in the repeated prisoners' dilemma. We begin with a motivating example in which a player is sometimes irresistibly tempted to defect. We show that whether grim-trigger strategies are robust to such perturbations depends both on the gains from unilateral defection and on the cost of cooperating against a defector.[2] An implication of this result is that robustness concerns can have significant effects on comparative statics of interest. Using the example of two firms in a joint venture, we show that making the firms more interdependent (for instance, by leaving unspecified the ultimate allocation of jointly owned assets in case the venture ends) can facilitate cooperation under complete information and reduce cooperation once robustness concerns are taken care of.

[1] Thus our analysis provides a theoretical foundation for the use of the risk-dominance criterion in the repeated prisoners' dilemma discussed by Blonski and Spagnolo (2004) and tested in laboratory experiments by Dal Bo and Frechette (forthcoming). Note that our robustness exercise can apply to environments where there is no uncertainty about material payoffs (e.g., in laboratory experiments) if one allows for uncertainty about psychological payoffs.

[2] Note that this occurs even though the probability of outcome (Defect, Cooperate) is vanishingly small in the equilibrium.

Second, for any discount factor, we compute explicitly the set of dynamically robust equilibrium values in the repeated prisoners' dilemma. We show that, whenever outcome (Defect, Cooperate) can be enforced under complete information, the set of dynamically robust equilibrium values is essentially equal to the set of equilibrium values under complete information. Inversely, whenever (Defect, Cooperate) is not enforceable under complete information, the set of dynamically robust equilibria shrinks to permanent defection. In addition, we highlight that grim-trigger strategies are not best suited to sustain robust cooperation and show that selective-punishment strategies—that punish only deviators upon unilateral deviations—are robust over a larger set of parameter values.

Finally, we show that a folk theorem in dynamically robust equilibria holds for repeated games with imperfect public monitoring, but that it requires stronger identifiability conditions than the pairwise full rank condition of Fudenberg et al. (1994) to control continuation values upon both unilateral and joint deviations from equilibrium behavior. As a corollary, this folk theorem provides an existence result for dynamically robust equilibria for discount factors close to 1. This is useful given that the existence of robust equilibria is not guaranteed in general static games (see, for instance, Example 3.1 in KM).

Our approach to robustness is closely related to that of KM and has a similar interpretation. Since the pioneering work of Rubinstein (1989) and Carlsson and van Damme (1993), who show that strict equilibria of two-by-two games can be destabilized by arbitrarily small perturbations, the question of robustness to incomplete information has received much attention. Work on this topic is of two kinds. A variety of applied work uses robustness to incomplete information as a criterion for equilibrium selection.[3] A complementary literature explores robustness to incomplete information to ensure that specific equilibria of interest are robust to reasonable perturbations in the information structure.[4] KM, as well as this paper, provide a benchmark for both types of studies by analyzing the robustness of equilibria to all small perturbations in the information structure.[5] By considering a large class of possible perturbations, rather than focusing on specific ones, this approach provides general sufficient conditions that guarantee the robustness of equilibria, and establishes informative bounds on how much selection can be achieved using perturbations in the information structure.[6]

This paper contributes to the literature on repeated games by highlighting how robustness concerns affect the efficient provision of dynamic incentives. In this sense, our

[3] See, for instance, Morris and Shin (1998), Chamley (1999), Frankel et al. (2003), Goldstein and Pauzner (2004), or Argenziano (2008). See Morris and Shin (2003) for an extensive literature review.

[4] See, for instance, Bergemann and Morris (2005), Oury and Tercieux (2009), or Aghion et al. (2010).

[5] KM as well as Monderer and Samet (1989) or this paper consider perturbations that are small from an ex ante perspective. Weinstein and Yildiz (2007) consider perturbations that are close from an interim perspective in the product topology on the universal type space. See Dekel et al. (2006), Chen et al. (2010), or Ely and Pęski (2006) for recent work exploring in details various topologies on informational types. Note also that KM maintain the common-prior assumption. Oyama and Tercieux (2010) and Izmalkov and Yildiz (2010) consider incomplete-information perturbations that do not satisfy the common-prior assumption. We relax the common-prior assumption in Appendix A.

[6] These bounds are tight in the context of repeated two-by-two games since it can be shown that global-game perturbations are, in fact, most destabilizing.

paper extends the work of Giannitsarou and Toxvaerd (2007) or Chassang (2010), who analyze dynamic global games in which the question of efficient punishment schemes does not arise. Giannitsarou and Toxvaerd (2007) show that, in a finite-horizon game with strategic complementarities, a global-game perturbation à la Carlsson and van Damme (1993) selects a unique equilibrium. Chassang (2010) considers an infinite-horizon exit game and shows that, even though the global-game perturbation does not yield uniqueness, it still selects a subset of equilibria whose qualitative properties are driven by risk-dominance considerations. An important difference between these papers and ours is that they consider robustness to a specific information perturbation whereas we study robustness to all sequences of independent elaborations. This makes our robustness results stronger and our nonrobustness results weaker. From a technical perspective, considering robustness to all small perturbations simplifies the analysis and, in particular, allows us to dispense with strategic complementarity, which is frequently assumed in the global-games literature (see, for instance, Frankel et al. (2003)).

The paper is structured as follows. Section 2 provides a motivating example. Section 3 defines robustness in static games. Section 4 formalizes our notion of dynamic robustness for repeated games and provides the main characterization results. Section 5 applies the results of Section 4 to study how concerns of robustness change analysis in the repeated prisoners' dilemma. Section 6 proves a folk theorem in dynamically robust equilibria for repeated games with imperfect public monitoring. Section 7 concludes. Appendix A extends our analysis to allow for incomplete-information perturbations that do not satisfy the common-prior assumption, as well as persistent payoff shocks. Proofs and technical extensions are contained in Appendices B and C.

2. A motivating example

This section illustrates how considering incomplete-information perturbations can enrich the analysis of simple repeated games in realistic ways. We also emphasize the value of a systematic approach to robustness.

2.1 *The repeated prisoners' dilemma*

Throughout this section, let PD denote the two-player prisoners' dilemma with actions $A_1 = A_2 = \{C, D\}$ and payoffs

	C	D
C	$1, 1$	$-c, b$
D	$b, -c$	$0, 0$

where $b > 1$, $c > 0$, and $b - c < 2$. Let $A = A_1 \times A_2$. We denote by Γ_{PD} the infinitely repeated version of PD with discount factor $\delta \in (0, 1)$. Let $H_t = A^t$ denote histories of length t. We allow players to condition their behavior on a public randomization device but omit it from histories for conciseness.

The analysis of the repeated prisoners' dilemma is greatly simplified by the penal code approach of Abreu (1988). Without loss of efficiency, to enforce cooperation it is sufficient to consider grim-trigger strategies such that players play C if D has never been played (cooperative state), and players play D if D has been played in some past period (punishment state). Conditional on the other player cooperating, grim-trigger strategies provide players with the highest incentives to cooperate as well. Under complete information, grim-trigger strategies form a subgame-perfect equilibrium (SPE) if and only if $\delta/(1-\delta) \geq b-1$. In words, cooperation is sustainable whenever the value of future cooperation is greater than the short term gains from deviation. Note that the cost c of cooperating while one's partner is defecting does not affect the sustainability of cooperation.

Throughout the paper we examine the robustness of these insights with respect to small misspecifications in the structure of the game of the kind considered by Rubinstein (1989), Carlsson and van Damme (1993), or Morris and Shin (1998). Does cost c start playing a more significant role in determining the sustainability of cooperation? Do grim-trigger strategies remain an optimal way to sustain cooperation?

2.2 *An incomplete-information perturbation*

Consider, for instance, the following perturbation of Γ_{PD}. In every period t, payoffs depend on an i.i.d. state ω_t uniformly distributed over $\{1, 2, \ldots, L\}$ with integer $L \geq 1$. If $\omega_t \in \{1, 2, \ldots, L-1\}$, then players are in a normal state with payoffs given by PD. If $\omega_t = L$, then player 1 is "tempted" to play D with payoffs given by

	C	D
C	$1, 1$	$-c, b$
D	$B, -c$	$B, 0$

where $B > b/(1-\delta)$ so that D is a dominant action for player 1 in the temptation state. We assume that player 1 is informed and observes a signal $x_{1,t} = \omega_t$, while player 2 observes only a noisy signal $x_{2,t} = \omega_t - \xi_t$, where ξ_t is an even coin flip over $\{0, 1\}$. We denote by Γ_{PD}^L this perturbed repeated prisoners' dilemma. A public strategy σ_i of player i is a mapping $\sigma_i : \bigcup_{t \geq 0} H_t \times \{2-i, \ldots, L\} \to \Delta(\{C, D\})$. A perfect public equilibrium (PPE) is a perfect Bayesian equilibrium in public strategies.

Fix B and consider $\{\Gamma_{\text{PD}}^L \mid L \geq 1\}$. As L goes to infinity, the players will agree up to any arbitrary order of beliefs that they play the standard prisoners' dilemma with high probability. The question we ask is as follows: when is it that an SPE of the complete information game Γ_{PD} approximately coincides with a PPE of the perturbed game Γ_{PD}^L for L large enough? We formalize this question with the following notion of robustness.

Definition 1 (Robustness with respect to Γ_{PD}^L). A pure SPE s^* of the repeated prisoners' dilemma Γ_{PD} is *robust* to the class of perturbed games $\{\Gamma_{\text{PD}}^L \mid L \geq 1\}$ if, for every $\eta > 0$, there exists $\bar{L}$ such that, for every $L \geq \bar{L}$, the perturbed game Γ_{PD}^L has a PPE σ^* such that $\text{Prob}(\sigma^*(h_{t-1}, \cdot) = s^*(h_{t-1})) \geq 1-\eta$ for every $t \geq 1$ and $h_{t-1} \in H_{t-1}$.[7]

[7]Here we view $\sigma^*(h_{t-1}, \cdot)$ as a random variable taking values in A. $\text{Prob}(\sigma^*(h_{t-1}, \cdot) = s^*(h_{t-1}))$ constitutes the probability-weighted average, across signals $x_t = (x_{1,t}, x_{2,t})$, of the weights given by the mixed-strategy profile $\sigma^*(h_{t-1}, x_t)$ to the pure-action profile $s^*(h_{t-1})$.

Proposition 1 (Robustness of grim-trigger strategies). *If $\delta/(1-\delta) > b-1+c$, then grim-trigger strategies are robust to the class of perturbed games $\{\Gamma_{\mathrm{PD}}^{L} \mid L \geq 1\}$. Conversely, if $\delta/(1-\delta) < b-1+c$, then grim-trigger strategies are not robust to the class of perturbed games $\{\Gamma_{\mathrm{PD}}^{L} \mid L \geq 1\}$.*

Note that condition

$$\frac{\delta}{1-\delta} > b-1+c \tag{1}$$

corresponds to outcome CC being strictly risk-dominant in the stage game augmented with continuation values

	C	D
C	$1/(1-\delta), 1/(1-\delta)$	$-c, b$
D	$b, -c$	$0, 0$

Section 4 provides a one-shot robustness principle that extends this property to more general environments.

Condition (1) highlights that losses c matter as much as the deviation temptation b to determine the robustness of cooperation in grim-trigger strategies.[8] This is supported by the experimental evidence of Dal Bo and Frechette (forthcoming), and contrasts with the condition for cooperation to be sustainable under complete information, $\delta/(1-\delta) \geq b-1$, where losses c play no role in determining the feasibility of cooperation. As the next section highlights, this difference can matter significantly for applications.

2.3 *Implications*

2.3.1 *Comparative statics* We now illustrate how considerations of robustness can change comparative statics by means of a simple example. We interpret the repeated prisoners' dilemma as a model of two firms in a joint venture. Each firm can either put all its efforts in the joint venture (cooperate) or redirect some of its efforts to a side project (defect). Imagine that payoffs are parameterized by the degree of interdependence $I \in [0,1]$ of the two firms, which is exogenously specified by the nature of the joint venture project. Interdependence affects payoffs as follows

$$b = b_0 - b_1 I$$

$$c = c_0 + c_1 I,$$

where b_0, b_1, c_0, and c_1 are strictly positive, $b_0 - b_1 > 1$ (so that players may be tempted to deviate even when $I = 1$), and $b_0 - c_0 < 2$ (so that cooperation is efficient even when $I = 0$). The greater the degree of interdependence I, the costlier it is for the two firms to function independently. The cost of functioning independently depends on whether

[8] This effect also plays an important role in Blonski and Spagnolo (2004), Chassang (2010), and Chassang and Padró i Miquel (2010).

the firm abandons the joint venture first or second. In particular, in many realistic environments, one may expect that $c_1 > b_1$, i.e., upon unilateral defection, increased interdependence hurts the defector less than the cooperator.[9] The question is whether greater interdependency facilitates the sustainability of cooperation.[10]

Under complete information, cooperation is sustainable under grim-trigger strategies if and only if

$$\frac{\delta}{1-\delta} \geq b - 1 = b_0 - 1 - b_1 I.$$

Greater interdependence reduces the value of unilateral deviations and hence facilitates the sustainability of cooperation. In contrast, grim-trigger strategies are robust to perturbations $\{\Gamma^L_{\mathrm{PD}} \mid L \geq 1\}$ whenever

$$\frac{\delta}{1-\delta} > b - 1 + c = b_0 - 1 + c_0 + (c_1 - b_1)I.$$

Hence, if $c_1 > b_1$, then greater interdependence reduces the sustainability of cooperation. Indeed, while greater interdependence diminishes the gains from unilateral deviation, it diminishes the payoffs of the player who still cooperates by an even greater amount. In the perturbed game Γ^L_{PD}, the losses from cooperating while one's partner is defecting loom large, and unambiguous comparative statics with respect to I are overturned if $c_1 > b_1$. This preemptive motive for defection does not exist in the complete-information environment, which highlights that taking robustness concerns seriously can significantly refine our intuitions.[11]

2.3.2 *Grim trigger, selective punishment, and robustness* A closer look at condition (1) suggests that grim-trigger strategies may not be the most robust way to sustain cooperation. To see this, it is useful to distinguish predatory and preemptive incentives for defection. Cooperation under grim-trigger strategies is robust to perturbation $\{\Gamma^L_{\mathrm{PD}} \mid L \geq 1\}$ whenever

$$\frac{\delta}{1-\delta} > b - 1 + c.$$

Parameter $b - 1$ corresponds to a player's predatory incentives, i.e., her incentives to defect on an otherwise cooperative partner. Parameter c corresponds to a player's preemptive incentives, i.e., her incentives to defect on a partner whom she expects to defect. The role played by $b - 1$ and c in Proposition 1 highlights that making predatory incentives $b - 1$ small is good for robustness, but that making preemptive incentives c high is bad for robustness. While grim-trigger strategies minimize predatory incentives,

[9] This is reasonably the case if the first mover can prepare better and has time to reduce her dependency on the other firm.

[10] Note that the analysis of Section 5 allows one to tackle this question for general strategies and the results described here would be qualitatively similar.

[11] Chassang and Padró i Miquel (2010) make a similar point in the context of military deterrence using a related framework.

they also increase preemptive incentives: a player who cooperates while her opponent defects suffers from long term punishment in addition to the short run cost c. More sophisticated strategies that punish defectors while rewarding cooperators might support cooperation more robustly. To make this more specific, we now consider a different class of strategies, which we refer to as selective-punishment strategies.

Selective-punishment strategies are described by the following automaton. There are four states: cooperation, C; punishment of player 1, P_1; punishment of player 2, P_2; and defection, D. In state C prescribed play is CC; in state P_1 prescribed play is CD; in state P_2 prescribed play is DC; in state D prescribed play is DD. If player i deviates unilaterally from prescribed play, then the state moves to P_i. If both players deviate, then the state moves to D. If both players play according to prescribed play, states C and D do not change whereas state P_i remains P_i with probability ρ and moves to C with probability $1-\rho$. In selective-punishment strategies, players selectively punish a unilateral deviator while rewarding the player who is deviated upon.

Player i's expected value in state P_i is denoted by v_P and characterized by equation $v_P = -c + \delta(\rho v_P + (1-\rho)/(1-\delta))$. If $\delta/(1-\delta) > \max\{b-1, c\}$, then one can pick $\rho \in (0,1)$ such that selective-punishment strategies are a strict SPE. Furthermore, by picking ρ below but close to $1 - c(1-\delta)/\delta$, one can take value v_P arbitrarily close to 0 in equilibrium.

Proposition 2 (Robustness of selective-punishment strategies). *If the pair of selective-punishment strategies forms a strict SPE of* Γ_{PD}*, then it is robust to the class of perturbed games* $\{\Gamma^L_{\text{PD}} \mid L \geq 1\}$.[12]

By Propositions 1 and 2, if grim-trigger strategies are robust to $\{\Gamma^L_{\text{PD}} \mid L \geq 1\}$, then so are selective-punishment strategies, but not vice versa. The intuition for this is best explained by writing explicitly the stage game augmented with continuation values in state C:

	C	D
C	$1/(1-\delta), 1/(1-\delta)$	$-c+\delta v_R, b+\delta v_P$
D	$b+\delta v_P, -c+\delta v_R$	$0, 0$

where v_R is player j's expected value in state P_i and is characterized by $v_R = b + \delta(\rho v_R + (1-\rho)/(1-\delta))$. If the pair of selective-punishment strategies forms a strict SPE, then it must be that $1/(1-\delta) > b + \delta v_P$ and $v_P > 0$. The fact that $v_P > 0$ implies that $\delta/(1-\delta) > c$ and, since $\delta v_R > \delta/(1-\delta)$, it follows that playing C is a strictly dominant strategy of the augmented stage game. Dominant strategies are robust to small amounts of incomplete information.

Selective-punishment strategies decrease v_P while increasing v_R, and thus reduce both predatory and preemptive incentives to defect. In contrast, grim-trigger strategies reduce predatory incentives but increase preemptive incentives.

[12] We say that an SPE is strict if at any history, a player's action are a strict best response.

2.4 *The need for a general analysis*

The example presented in this section shows that considering the impact of small perturbations in the information structure can suggest new and interesting insights on cooperation. The question remains: how much of this analysis is specific to the class of perturbations that we consider? Would selective-punishment strategies remain more robust than grim-trigger strategies if we considered different classes of perturbations? Can anything be said about general repeated games? Providing tractable answers to these questions is valuable because much of the applied work on complete-information repeated games focuses exclusively on predatory incentives and grim-trigger strategies; see, for instance, Rotemberg and Saloner (1986), Bull (1987), Bagwell and Staiger (1990), or Baker et al. (1994, 2002). Analyzing the implications of robustness concerns in these models may yield significant new insights.

The remainder of the paper provides a framework that allows us to study the robustness to incomplete information without committing to a specific incomplete-information perturbation. Since we build on KM and consider robustness to an entire class of unspecified, small enough perturbations, the setup is necessarily quite abstract. Still, we are able to provide a characterization of dynamically robust equilibria that makes the analysis tractable and highlights how the intuitions developed in this section generalize. To illustrate the applicability of our results, we characterize explicitly the set of dynamically robust equilibrium values in the repeated prisoners' dilemma for any discount factor and provide a folk theorem under imperfect public monitoring.

3. Robustness in static games

This section defines and characterizes robust equilibria in static games. Section 4 leverages these results by showing that the analysis of robustness in dynamic games can be reduced to the analysis of robustness in families of static games augmented with continuation values.

3.1 *Definitions*

Consider a complete-information game $G = (N, (A_i, g_i)_{i\in N})$ with a finite set $N = \{1, \dots, n\}$ of players. Each player $i \in N$ is associated with a finite set A_i of actions and a payoff function $g_i : A \to \mathbb{R}$, where $A = \prod_{i\in N} A_i$ is the set of action profiles. Let $a_{-i} \in A_{-i} = \prod_{j\in N\setminus\{i\}} A_j$ denote an action profile for player i's opponents. We use the max norm for payoff functions: $|g_i| \equiv \max_{a\in A} |g_i(a)|$ and $|g| \equiv \max_{i\in N} |g_i|$. For a constant $d \geq 0$, a pure-action profile $a^* = (a_i^*)_{i\in N} \in A$ is a *d-strict equilibrium* if $g_i(a^*) \geq g_i(a_i, a_{-i}^*) + d$ for every $i \in N$ and $a_i \in A_i \setminus \{a_i^*\}$. A Nash equilibrium is a 0-strict equilibrium; a strict equilibrium is a d-strict equilibrium for some $d > 0$.

An elaboration U of game G is an incomplete-information game $U = (N, \Omega, P, (A_i, u_i, Q_i)_{i\in N})$, where Ω is a countable set of states, P is a common prior over Ω, and, for each player $i \in N$, $u_i : A \times \Omega \to \mathbb{R}$ is her bounded state-dependent payoff function and Q_i is her information partition over Ω. Let $|u| \equiv \sup_{\omega\in\Omega} |u(\cdot, \omega)|$. For any finite set X, let $\Delta(X)$ denote the set of probability distributions over X. A mixed strategy of player i is a Q_i-measurable mapping $\alpha_i : \Omega \to \Delta(A_i)$.[13] The domain of u_i extends to mixed or correlated strategies in the usual way. Prior P and a profile $\alpha = (\alpha_i)_{i\in N}$ of mixed strategies induce a distribution $P^\alpha \in \Delta(A)$ over action profiles defined by $P^\alpha(a) = \sum_{\omega\in\Omega} P(\omega) \prod_{i\in N} \alpha_i(\omega)(a_i)$ for each $a \in A$. A mixed-strategy profile α^* is a *Bayesian–Nash equilibrium* if $\sum_{\omega\in\Omega} u_i(\alpha^*(\omega), \omega)P(\omega) \geq \sum_{\omega\in\Omega} u_i(\alpha_i(\omega), \alpha^*_{-i}(\omega), \omega)P(\omega)$ for every $i \in N$ and every Q_i-measurable strategy α_i of player i. The countability of Ω guarantees the existence of Bayesian–Nash equilibria.

For $\varepsilon \geq 0$ and $d \geq 0$, we say that U is an *(ε, d)-elaboration of a complete-information game G* if, with probability at least $1 - \varepsilon$, every player knows that her payoff function in U is within distance d of her payoff function in G, i.e.,

$$P\big(\big\{\omega \in \Omega \mid \forall i \in N, \forall \omega' \in Q_i(\omega), |u_i(\cdot, \omega') - g_i| \leq d\big\}\big) \geq 1 - \varepsilon,$$

where $Q_i(\omega)$ denotes the element of partition Q_i that contains ω.

Definition 2 (Static robustness). For a constant $d \geq 0$, a pure Nash equilibrium a^* of a complete-information game G is *d-robust* (to incomplete information) if, for every $\eta > 0$, there exists $\varepsilon > 0$ such that every (ε, d)-elaboration U of G has a Bayesian–Nash equilibrium α^* such that $P^{\alpha^*}(a^*) \geq 1 - \eta$.

A pure Nash equilibrium a^* of G is *strongly robust* if it is d-robust for some $d > 0$.[14]

In words, an equilibrium a^* of G is strongly robust if every sufficiently close elaboration of G admits a Bayesian–Nash equilibrium that puts high probability on action profile a^*. Note that 0-robustness corresponds to robustness in the sense of KM.[15]

3.2 *Sufficient conditions for strong robustness*

Because the set of elaborations we consider allows for small shocks with a large probability, a strongly robust equilibrium a^* is necessarily strict. More precisely, the following holds.

Lemma 1 (Strictness). *For a constant $d \geq 0$, if a pure-action profile a^* is a d-robust equilibrium of G, then a^* is $2d$-strict in G.*

[13]With a slight abuse of terminology, we say that α_i is Q_i-measurable if it is measurable with respect to the σ-algebra generated by Q_i.

[14]To avoid unnecessary notations, we do not extend our definition of d-robustness to mixed equilibria of G. If we did, a straightforward extension of Lemma 1 (below) would show that, in fact, all strongly robust equilibria are pure.

[15]The notion of robustness for static games that we define here is a little more stringent than that of KM. Indeed, in repeated games, the fact that payoffs can be perturbed with some small probability in future periods implies that current expected continuation values can be slightly different from original continuation values with large probability. To accommodate this feature, our notion of robustness allows for elaborations that have payoffs close (instead of identical) to the payoffs of the complete-information game with large probability. It can be shown that under weaker notions of robustness, the one-shot deviation principle need not have a robust analogue.

We now provide sufficient conditions for an equilibrium a^* to be robust. These conditions essentially extend the results of KM to d-robustness with $d > 0$.[16] We begin with the case where a^* is the unique correlated equilibrium of G.

Lemma 2 (Strong robustness of unique correlated equilibria). *If a pure-action profile a^* is the unique correlated equilibrium of G and a^* is strict, then a^* is strongly robust in G.*

A useful special case is the one where a^* is the only equilibrium surviving iterated elimination of strictly dominated actions. For $d \geq 0$, we say that an action profile a^* is an *iteratively d-dominant equilibrium of G* if there exists a sequence $\{X_{i,t}\}_{t=0}^{T}$ of action sets with $A_i = X_{i,0} \supseteq X_{i,1} \supseteq \cdots \supseteq X_{i,T} = \{a_i^*\}$ for each $i \in N$ such that, at every stage t of elimination with $1 \leq t \leq T$, for each $i \in N$ and $a_i \in X_{i,t-1} \setminus X_{i,t}$, there exists $a_i' \in X_{i,t-1}$ such that $g_i(a_i', a_{-i}) > g_i(a_i, a_{-i}) + d$ for all $a_{-i} \in \prod_{j \in N \setminus \{i\}} X_{j,t-1}$.

Lemma 3 (Strong robustness of iteratively d-dominant equilibria). *For a constant $d \geq 0$, if a pure-action profile a^* is an iteratively d-dominant equilibrium of G, then a^* is $d/2$-robust in G.*

KM provide another sufficient condition for robustness, which is particularly useful in applied settings. Following KM, for a vector $\mathbf{p} = (p_1, \ldots, p_n) \in (0, 1]^n$, we say that an action profile a^* is a **p**-*dominant equilibrium of G* if

$$\sum_{a_{-i} \in A_{-i}} \lambda(a_{-i}) g_i(a_i^*, a_{-i}) \geq \sum_{a_{-i} \in A_{-i}} \lambda(a_{-i}) g_i(a_i, a_{-i})$$

for every $i \in N$, $a_i \in A_i$, and $\lambda \in \Delta(A_{-i})$ such that $\lambda(a_{-i}^*) \geq p_i$. In words, an action profile a^* is **p**-dominant if every player has incentives to play a_i^* when she believes that the other players play a_{-i}^* with probability at least p_i. An action profile a^* is a *strictly* **p**-*dominant equilibrium of G* if it is a strict and **p**-dominant equilibrium of G. KM establish that every **p**-dominant equilibrium with $\sum_i p_i < 1$ is robust. This extends to the case of strong robustness as follows.

Lemma 4 (Strong robustness of strictly **p**-dominant equilibria). *If a pure-action profile a^* is a strictly* **p**-*dominant equilibrium of G for a vector $\mathbf{p} = (p_1, \ldots, p_n)$ with $\sum_i p_i < 1$, then a^* is strongly robust in G.*

We know from KM (Lemma 5.5) that if a game has a strictly **p**-dominant equilibrium with $\sum_i p_i < 1$, then no other action profile is 0-robust. Combined with Lemma 4, this implies that if a game has a strictly **p**-dominant equilibrium with $\sum_i p_i < 1$, it is the unique strongly robust equilibrium. For example, in a two-by-two coordination game, a strictly risk-dominant equilibrium is the unique strongly robust equilibrium.

[16]For additional sufficient conditions ensuring the robustness of equilibria, see Ui (2001) or Morris and Ui (2005).

4. Robustness in repeated games

In this section, we formulate a notion of robustness to incomplete information that is appropriate for repeated games. We consider payoff shocks that are stochastically independent across periods. We show in Sections 4.2 and 4.3 that dynamically robust equilibria admit a convenient recursive representation. Appendix A extends our results to a larger class of correlated perturbations, provided that past large payoff shocks are sufficiently public.

4.1 *Definitions*

Consider a complete-information game $G = (N, (A_i, g_i)_{i \in N})$ as well as a public monitoring structure (Y, π), where Y is a finite set of public outcomes and $\pi : A \to \Delta(Y)$ maps action profiles to distributions over public outcomes. Keeping fixed the discount factor $\delta \in (0, 1)$, let Γ_G denote the infinitely repeated game with stage game G, discrete time $t \in \{1, 2, 3, \ldots\}$, and monitoring structure (Y, π).[17] For each $t \geq 1$, let $H_{t-1} = Y^{t-1}$ be the set of public histories of length $t - 1$, corresponding to possible histories at the beginning of period t. Let $H = \bigcup_{t \geq 1} H_t$ be the set of all finite public histories. A pure public-strategy of player i is a mapping $s_i : H \to A_i$. Conditional on public history $h_{t-1} \in H$, a public-strategy profile $s = (s_i)_{i \in N}$ induces a distribution over sequences $(a_t, a_{t+1}, \ldots)$ of future action profiles, which, in turn, induces continuation values $v_i(s|h_{t-1})$ such that

$$\forall i \in N, \forall h_{t-1} \in H, \quad v_i(s|h_{t-1}) = \mathbb{E}\left[\sum_{\tau=1}^{\infty} \delta^{\tau-1} g_i(a_{t+\tau-1})\right].$$

A public-strategy profile s^* is a *perfect public equilibrium* (PPE) if $v_i(s^*|h_{t-1}) \geq v_i(s_i, s^*_{-i}|h_{t-1})$ for every $h_{t-1} \in H$, $i \in N$, and public strategy s_i of player i (Fudenberg et al. 1994). The restriction to public strategies corresponds to the assumption that although player i observes her own actions a_i as well as past stage-game payoffs $g_i(a)$ (or perhaps noisy signals of $g_i(a)$), she conditions her behavior only on public outcomes.

We define perturbations of Γ_G as follows. Consider a sequence $\mathbf{U} = \{U_t\}_{t \in \mathbb{N}}$ of incomplete-information elaborations $U_t = (N, \Omega_t, P_t, (A_i, u_{it}, Q_{it})_{i \in N})$ of G. We define the norm $|\mathbf{U}| \equiv \sup_{t \in \mathbb{N}} |u_t|$. Given a sequence $\mathbf{U}$ such that $|\mathbf{U}| < \infty$, we denote by $\Gamma_{\mathbf{U}}$ the following infinite-horizon game with public monitoring. In each period t, state $\omega_t \in \Omega_t$ is generated according to P_t independently of past action profiles, past outcomes, and past states. Each player i receives a signal according to her information partition Q_{it} and chooses action $a_{it} \in A_i$. At the end of the period, an outcome $y \in Y$ is drawn according to $\pi(a_t)$ and is publicly observed. A public strategy of player i is a mapping $\sigma_i : \bigcup_{t \geq 1} H_{t-1} \times \Omega_t \to \Delta(A_i)$ such that $\sigma_i(h_{t-1}, \cdot)$ is Q_{it}-measurable for every public history $h_{t-1} \in H$.

Conditional on public history h_{t-1}, a public-strategy profile $\sigma = (\sigma_i)_{i \in N}$ induces a probability distribution over sequences of future action profiles and states, which allows

[17]We omit indexing the game by its monitoring structure for conciseness. Note that this class of games includes games with perfect monitoring and games with finite public randomization devices.

us to define continuation values $v_i(\sigma|h_{t-1})$ such that

$$\forall i \in N, \forall h_{t-1} \in H, \quad v_i(\sigma|h_{t-1}) = \mathbb{E}\left[\sum_{\tau=1}^{\infty} \delta^{\tau-1} u_{i,t+\tau-1}(a_{t+\tau-1}, \omega_{t+\tau-1})\right].$$

The assumption of uniformly bounded stage-game payoffs implies that the above infinite sum is well defined. A public-strategy profile σ^* is a *perfect public equilibrium* (PPE) if $v_i(\sigma^*|h_{t-1}) \geq v_i(\sigma_i, \sigma^*_{-i}|h_{t-1})$ for every $h_{t-1} \in H$, $i \in N$, and public strategy σ_i of player i.

Definition 3 (Dynamic robustness). For a constant $d \geq 0$, a pure PPE s^* of the repeated game Γ_G is d-*robust* if, for every $\eta > 0$ and $M > 0$, there exists $\varepsilon > 0$ such that, for every sequence $\mathbf{U} = \{U_t\}_{t\in\mathbb{N}}$ of (ε, d)-elaborations of G with $|\mathbf{U}| < M$, the perturbed game $\Gamma_{\mathbf{U}}$ has a PPE σ^* such that $P_t^{\sigma^*(h_{t-1},\cdot)}(s^*(h_{t-1})) \geq 1 - \eta$ for every $t \geq 1$ and $h_{t-1} \in H_{t-1}$.[18]

A pure PPE s^* of Γ_G is *strongly robust* if it is d-robust for some $d > 0$.

In words, we say that a PPE s^* of repeated game Γ_G is strongly robust if every repeated game with small independent perturbations admits a PPE that puts high probability on the action profile prescribed by s^* at every public history. Let V^{rob} be the set of all payoff profiles of strongly robust PPEs in Γ_G.[19]

4.2 *A one-shot robustness principle*

We now relate the dynamic robustness of PPEs of Γ_G to the robustness of one-shot action profiles in static games augmented with continuation values. This yields a one-shot robustness principle analogous to the one-shot deviation principle.

Given a stage game G and a one-period-ahead continuation-value profile $w : Y \to \mathbb{R}^n$ contingent on public outcomes, let $G(w)$ be the complete-information game augmented with continuation values w, i.e., $G(w) = (N, (A_i, g'_i)_{i\in N})$ such that $g'_i(a) = g_i(a) + \delta\mathbb{E}[w_i(y)|a]$ for every $i \in N$ and $a \in A$. For a strategy profile s of repeated game Γ_G and a history h, let $w_{s,h}$ be the continuation-value profile given by $w_{s,h}(y) = (v_i(s|(h, y)))_{i\in N}$ for each $y \in Y$. By the one-shot deviation principle, s^* is a PPE of repeated game Γ_G if and only if $s^*(h)$ is a Nash equilibrium of $G(w_{s^*,h})$ for every $h \in H$ (Fudenberg and Tirole 1991, Theorem 4.2).

[18] As in footnote 7, $P_t^{\sigma^*(h_{t-1},\cdot)}(s^*(h_{t-1}))$ is the expectation of the weights given by the mixed-strategy profile $\sigma^*(h_{t-1}, \omega_t)$ to the pure-action profile $s^*(h_{t-1})$, where ω_t is drawn from Ω_t according to P_t.

[19] Note that our definition of dynamic robustness considers only sequences $\mathbf{U} = \{U_t\}_{t\in\mathbb{N}}$ of incomplete-information games that are close to G uniformly over t. A possible alternative would be to require only pointwise convergence of the sequence $\mathbf{U} = \{U_t\}$, i.e., that every U_t approach G. Our choice is motivated by two main considerations. First, uniform convergence ensures that periods far apart in time remain comparable. Second, requiring only pointwise convergence makes the robustness criterion so strong as to make analysis uninteresting. For example, consider a stage game G with a unique Nash equilibrium a^*, and perturbations $\mathbf{U}^T = \{U_t^T\}_{t\in\mathbb{N}}$ such that U_t^T is identical to G for $t \leq T$ and $u_{it}^T \equiv 0$ for every $i \in N$ and $t > T$. For each $t \geq 1$, U_t^T converges to G as $T \to \infty$. Since game $\Gamma_{\mathbf{U}^T}$ has a finite effective horizon, it follows from the standard backward induction that players play a^* for the first T periods in every PPE of $\Gamma_{\mathbf{U}^T}$. Thus the only dynamically robust equilibrium of Γ_G would be the repetition of a^*.

The next lemma extends Lemma 1 and shows that at any history, the one-shot action profile prescribed by a strongly robust PPE is a strict equilibrium of the appropriately augmented stage game.

Lemma 5 (Strictness in augmented games). *For a constant $d \geq 0$, if a pure-strategy profile s^* is a d-robust PPE of the repeated game Γ_G, then the pure-action profile $s^*(h)$ is a $2d$-strict equilibrium of the augmented stage game $G(w_{s^*,h})$ for every $h \in H$.*

The following theorem relates strong robustness in Γ_G to strong robustness in all appropriately augmented stage games. This is the analogue of the one-shot deviation principle for strongly robust PPEs.

Theorem 1 (One-shot robustness principle). *A pure-strategy profile s^* is a strongly robust PPE of the repeated game Γ_G if and only if there exists a constant $d > 0$ such that, for every $h \in H$, the pure-action profile $s^*(h)$ is a d-robust equilibrium of the augmented stage game $G(w_{s^*,h})$.*

This yields the following corollary.

Corollary 1. *A finite-automaton pure PPE s^* is strongly robust in the repeated game Γ_G if and only if, for every $h \in H$, the pure-action profile $s^*(h)$ is strongly robust in the augmented stage game $G(w_{s^*,h})$. In particular, if the stage game G is a two-by-two game and s^* is a finite-automaton pure PPE of Γ_G, then s^* is strongly robust if and only if, for every $h \in H$, $s^*(h)$ is strictly risk-dominant in $G(w_{s^*,h})$.*

The proof of Theorem 1 exploits heavily the fact that strong robustness is a notion of robustness that holds uniformly over small neighborhoods of games.

4.3 *Factorization*

In this section, we use Theorem 1 to obtain a recursive characterization of V^{rob}, the set of strongly robust PPE payoff profiles. More precisely, we prove self-generation and factorization results analogous to those of APS. We begin with a few definitions.

Definition 4 (Robust enforcement). For an action profile $a \in A$, a vector of values $v \in \mathbb{R}^n$, a mapping $w: Y \to \mathbb{R}^n$ from public signals to vectors of continuation values, and a constant $d \geq 0$, w *enforces* (a, v) *d-robustly* if a is a d-robust equilibrium of $G(w)$ and $v = g(a) + \delta\mathbb{E}[w(y)|a]$.

For $v \in \mathbb{R}^n$, $V \subseteq \mathbb{R}^n$, and $d \geq 0$, v is *d-robustly generated by V* if there exist $a \in A$ and $w: Y \to V$ such that w enforces (a, v) d-robustly.

Let $B^d(V)$ be the set of payoff profiles that are d-robustly generated by V. This is the robust analogue of mapping $B(V)$ introduced by APS, where $B(V)$ is the set of all payoff profiles $v = g(a) + \delta\mathbb{E}[w(y)|a]$ for $a \in A$ and $w: Y \to V$ such that a is a Nash equilibrium of $G(w)$. We say that V is *self-generating with respect to B^d* if $V \subseteq B^d(V)$. We denote the set of feasible values by $F = (1/(1-\delta)) \operatorname{co} g(A)$.

Lemma 6 (Monotonicity). *(i) If $V \subseteq V' \subseteq F$, then $B^d(V) \subseteq B^d(V') \subseteq F$.*

(ii) The mapping B^d admits a largest fixed point V^d among all subsets of F.

(iii) If $V \subseteq F$ and V is self-generating with respect to B^d, then $V \subseteq V^d$.

Note that by definition $B^d(V)$ and V^d are weakly decreasing in d with respect to set inclusion. We characterize V^{rob} using mapping B^d as follows.

Corollary 2 (Characterization of V^{rob}). *The set*

$$V^{\text{rob}} = \bigcup_{d>0} V^d = \bigcup_{d>0} \bigcap_{k=0}^{\infty} (B^d)^k(F).$$

The set of robust values V^{rob} is the limit of the largest fixed points V^d of B^d as d goes to 0. Corollary 2 corresponds to APS's self-generation, factorization, and algorithm results (APS, Theorems 1, 2, and 5), which show that the set of all PPE payoff profiles is the largest bounded fixed point of the mapping B and can be computed by iteratively applying B to F. Since we require robust enforcement at every stage, mapping B is replaced by B^d.

5. Robustness in the repeated prisoners' dilemma

In this section, we characterize strongly robust subgame-perfect equilibrium (SPE) payoff profiles in the repeated prisoners' dilemma with perfect monitoring.[20] We show that whenever outcome (Defect, Cooperate) can be enforced in an SPE under complete information, the set of strongly robust SPE payoff profiles is essentially equal to the set of SPE payoff profiles under complete information. Inversely, whenever (Defect, Cooperate) cannot be enforced in an SPE under complete information, even if (Cooperate, Cooperate) is enforcable in an SPE under complete information, the set of strongly robust SPEs shrinks to permanent defection.[21]

We also show that selective-punishment strategies are more robust than grim-trigger strategies. In fact, whenever selective-punishment strategies form a strict SPE of the complete-information games, then they are strongly robust. However, there exist more sophisticated strategies that can sustain cooperation in circumstances where selective-punishment strategies cannot.

As in Section 2, let PD denote the two-player prisoners' dilemma with payoffs

	C	D
C	$1, 1$	$-c, b$
D	$b, -c$	$0, 0$

[20]Note that, under perfect monitoring, PPEs simply correspond to SPEs.

[21]Generally, if (Defect, Cooperate) is not enforced in an SPE under complete information, then the set of SPE payoff profiles is either the payoff profile of (Defect, Defect) or the line segment between the payoff profiles of (Defect, Defect) and (Cooperate, Cooperate). See Appendix B.11.

where $b > 1$, $c > 0$, and $b - c < 2$. We also allow players to condition their behavior on a continuous public randomization device.[22] We are interested in Γ_{PD}, the repeated prisoners' dilemma with public randomization devices and perfect monitoring.

5.1 *Robust cooperation in grim-trigger strategies*

As an illustration, we begin by studying the robustness of grim-trigger strategies. Under complete information, grim-trigger strategies form an SPE if and only if $\delta/(1-\delta) \geq b - 1$. We showed that grim-trigger strategies are robust to the perturbations $\{\Gamma_{\text{PD}}^L \mid L \geq 1\}$ considered in Section 2 whenever $\delta/(1-\delta) > b - 1 + c$. We now show that this condition guarantees strong robustness in the sense of Definition 3.

The proof follows from the one-shot robustness principle (Theorem 1), which states that an SPE is strongly robust if and only if every prescribed action profile is strongly robust in the stage game augmented with continuation values. In the case of grim-trigger strategies, this boils down to checking that CC is strictly risk-dominant in

	C	D
C	$1/(1-\delta), 1/(1-\delta)$	$-c, b$
D	$b, -c$	$0, 0$

This is equivalent to condition (1) of Section 2, i.e., $\delta/(1-\delta) > b - 1 + c$. Returning to the class of perturbations studied in Section 2, this means that grim-trigger strategies are robust to perturbations $\{\Gamma_{\text{PD}}^L \mid L \geq 1\}$ whenever they are robust to all small perturbations.

5.2 *Characterizing strongly robust SPEs*

Our characterization of strongly robust SPEs in the repeated prisoners' dilemma is in three steps. First, we provide a classification of prisoners' dilemma games under complete information. Then we prove a fragility result that shows that if total surplus is so low that a player would never accept to cooperate while the other defects, then the only strongly robust SPE is for players to defect at every history. In contrast, if there is enough surplus so that one player may accept to cooperate while the other defects in some period, then essentially every SPE value under complete information can be sustained by a strongly robust SPE.

5.2.1 *A classification of prisoners' dilemma games* We classify prisoners' dilemma games according to the enforceability of action profiles. We say that action profile a is *enforceable under complete information in* Γ_{PD} if there exists an SPE of Γ_{PD} that prescribes a at some history.

Definition 5 (Classification of prisoners' dilemma games). Fix δ. We define four classes of prisoners' dilemma games, $\mathcal{G}_{DC/CC}$, $\mathcal{G}_{DC}$, $\mathcal{G}_{CC}$, and $\mathcal{G}_{\varnothing}$, as follows:

[22] Formally, the framework of Section 4 covers only finite public randomization devices. See Appendix C for a description of the measurability conditions necessary to extend our analysis to continuous public randomizations.

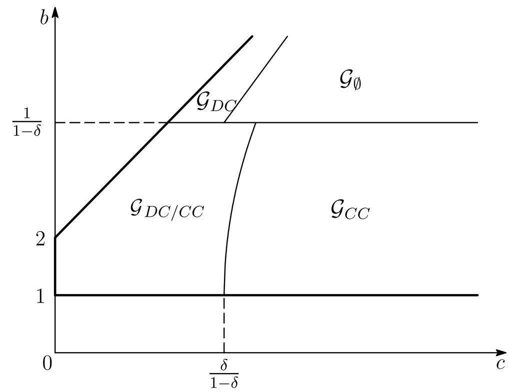

FIGURE 1. Classification of prisoners' dilemma games.

(i) Class $\mathcal{G}_{DC/CC}$ is the class of PD such that DC and CC are enforceable under complete information in Γ_{PD}.

(ii) Class $\mathcal{G}_{DC}$ is the class of PD such that DC is enforceable under complete information in Γ_{PD}, but CC is not.

(iii) Class $\mathcal{G}_{CC}$ is the class of PD such that CC is enforceable under complete information in Γ_{PD}, but DC is not.

(iv) Class $\mathcal{G}_{\varnothing}$ is the class of PD such that neither DC nor CC is enforceable under complete information in Γ_{PD}.

Note that DD is always enforceable under complete information. Stahl (1991) characterizes explicitly the set V^{SPE} of SPE payoff profiles under complete information as a function of parameters δ, b, and c (Appendix B.11). See Figure 1 for a representation of classes of prisoners' dilemma games as a function of b and c, for δ fixed.

Stahl (1991) shows that, if $\text{PD} \in \mathcal{G}_{DC/CC}$, then $V^{\text{SPE}} = \text{co}\{(0,0), (1/(1-\delta), 1/(1-\delta)), (0,\phi), (\phi, 0)\}$ with $\phi \geq 1/(1-\delta)$. This means that, for $\text{PD} \in \mathcal{G}_{DC/CC}$, it is possible to punish one player while giving the other one her maximum continuation value. If $\text{PD} \in \mathcal{G}_{DC}$, then $V^{\text{SPE}} = \text{co}\{(0,0), (0, (b-c)/(1-\delta)), ((b-c)/(1-\delta), 0)\}$.[23] Finally, we have that if $\text{PD} \in \mathcal{G}_{CC}$, then $V^{\text{SPE}} = \text{co}\{(0,0), (1/(1-\delta), 1/(1-\delta))\}$, and if $\text{PD} \in \mathcal{G}_{\varnothing}$, then $V^{\text{SPE}} = \{(0,0)\}$.

5.2.2 *A fragility result* The following proposition shows that if DC is not enforceable under complete information, then the only strongly robust SPE is permanent defection.

PROPOSITION 3 (Fragile equilibria). *Fix a discount factor $\delta < 1$. If* $\text{PD} \in \mathcal{G}_{CC}$, *then the only strongly robust SPE of* Γ_{PD} *is permanent defection and* $V^{\text{rob}} = \{(0,0)\}$.

[23]Note that if $\text{PD} \in \mathcal{G}_{DC}$, then $b > c$.

Proof. The proof is by contradiction. Assume that there exist a strongly robust SPE s^* of Γ_{PD} and a public history h such that $s^*(h) \neq DD$. Since PD $\in \mathcal{G}_{CC}$, s^* is necessarily strongly symmetric, i.e., it prescribes only action profiles CC or DD. This implies that $s^*(h) = CC$ and that, for every action profile a, players have identical continuation values following history (h, a). Furthermore, we have $c > \delta/(1-\delta)$; otherwise, DC would be enforceable under complete information.

Given continuation values w, the augmented game PD(w) at history h takes the form

	C	D
C	$1+\delta w_{CC}, 1+\delta w_{CC}$	$-c+\delta w_{CD}, b+\delta w_{CD}$
D	$b+\delta w_{DC}, -c+\delta w_{DC}$	$\delta w_{DD}, \delta w_{DD}$

where w_{CC}, w_{CD}, w_{DC}, and w_{DD} are in $[0, 1/(1-\delta)]$. Note that CC is a Nash equilibrium of PD(w) since s^* is an SPE of Γ_{PD}. Action profile DD is also a Nash equilibrium of PD(w) because $c > \delta/(1-\delta)$, $w_{DD} - w_{CD} \geq -1/(1-\delta)$, and $w_{DD} - w_{DC} \geq -1/(1-\delta)$.

We now show that DD is strictly risk-dominant in PD(w), i.e., that

$$\begin{aligned}(\delta w_{DD} + c - \delta w_{CD})&(\delta w_{DD} + c - \delta w_{DC}) \\ &> (1+\delta w_{CC} - b - \delta w_{CD})(1+\delta w_{CC} - b - \delta w_{DC}).\end{aligned} \tag{2}$$

Note that each bracket term of (2) is nonnegative because CC and DD are Nash equilibria of PD(w). Also note that $\delta w_{DD} + c > 1 + \delta w_{CC} - b$ because $b > 1$, $c > \delta/(1-\delta)$, and $w_{DD} - w_{CC} \geq -1/(1-\delta)$. Since the left-hand side is larger than the right-hand side term by term, (2) is satisfied.

Since DD is strictly risk-dominant in PD(w), by KM (Lemma 5.5), CC is not 0-robust in PD(w). This contradicts Theorem 1. □

5.2.3 *A robustness result* We now show that if DC is enforceable under complete information, then V^{rob} is essentially equal to V^{SPE}. Indeed, if action profile DC is enforceable under complete information, then, essentially every payoff profile $v \in V^{\text{SPE}}$ can be sustained by an SPE that satisfies the following remarkable property, which we call *iterative stage dominance*.[24]

Lemma 7 (Iterative stage dominance). *Fix a discount factor* $\delta < 1$. *If either* PD $\in \operatorname{int}\mathcal{G}_{DC/CC}$ *and* $v \in \{(0,0), (1/(1-\delta), 1/(1-\delta))\} \cup \operatorname{int} V^{\text{SPE}}$ *or* PD $\in \operatorname{int}\mathcal{G}_{DC}$ *and* $v \in \{(0,0)\} \cup \operatorname{int} V^{\text{SPE}}$, *then there exist a constant* $d > 0$ *and an SPE* s^* *of* Γ_{PD} *with payoff profile* v *such that, for every public history* h, $s^*(h)$ *is iteratively* d*-dominant in the augmented stage game* PD$(w_{s^*,h})$.[25]

[24]This property is related to Miller's (2009) notion of ex post equilibrium in repeated games of adverse selection, but allows for iterated elimination of strictly dominated actions.

[25]We identify a prisoners' dilemma game by its parameters $(b, c) \in \mathbb{R}^2$, so the interior of a class of prisoners' dilemma games is derived from the standard topology on $\mathbb{R}^2$.

The detailed proof of Lemma 7 is lengthy, but the main idea of the argument is straightforward. We show that, for every SPE, its off-path behavior can be modified so that at each history, the prescribed action profile is iteratively dominant in the appropriately augmented stage game. The proof exploits the fact that payoff profiles in V^{SPE} allow us to punish one player while rewarding the other.

As an example, consider PD in the interior of $\mathcal{G}_{DC/CC}$ and grim-trigger strategies. On the equilibrium path, CC is a Nash equilibrium of

	C	D
C	$1/(1-\delta), 1/(1-\delta)$	$-c, b$
D	$b, -c$	$0, 0$

Because DD is also an equilibrium of this game, CC is not iteratively dominant. This can be resolved by changing continuation strategies upon outcomes CD and DC. By Stahl's characterization, we know that V^{SPE} takes the form $\mathrm{co}\{(0,0), (1/(1-\delta), 1/(1-\delta)), (0,\phi), (\phi, 0)\}$, where $\phi \geq 1/(1-\delta)$. Consider any public history of the form $(CC, \ldots, CC, CD)$.[26] The grim-trigger strategy prescribes permanent defection. We replace this continuation strategy by an SPE s_{CD} that attains $(\phi, 0)$ so that only the deviator is punished upon unilateral deviation. We also replace the continuation strategy after $(CC, \ldots, CC, DC)$ by an SPE s_{DC} that attains $(0, \phi)$. Then the augmented game after $(CC, \ldots, CC)$ becomes

	C	D
C	$1/(1-\delta), 1/(1-\delta)$	$-c+\delta\phi, b$
D	$b, -c+\delta\phi$	$0, 0$

By assumption, CD and DC are enforceable under complete information, so $-c + \delta\phi \geq 0$. Thus C is weakly dominant for both players in this augmented game. Because $\mathrm{PD} \in \mathrm{int}\,\mathcal{G}_{DC/CC}$, C is, in fact, strictly dominant. The difficult part of the proof is to show that strategy profiles s_{CD} and s_{DC} can be further modified so that their prescribed action profiles become iteratively dominant in corresponding augmented stage games as well.

The following proposition follows directly from Lemma 3, Theorem 1, and Lemma 7.

Proposition 4 (Robust equilibria). *Fix a discount factor $\delta < 1$. If $\mathrm{PD} \in \mathrm{int}\,\mathcal{G}_{DC/CC}$, then*

$$\left\{(0,0), \left(\frac{1}{1-\delta}, \frac{1}{1-\delta}\right)\right\} \cup \mathrm{int}\,V^{\mathrm{SPE}} \subseteq V^{\mathrm{rob}} \subseteq V^{\mathrm{SPE}}.$$

If $\mathrm{PD} \in \mathrm{int}\,\mathcal{G}_{DC}$, then

$$\{(0,0)\} \cup \mathrm{int}\,V^{\mathrm{SPE}} \subseteq V^{\mathrm{rob}} \subseteq V^{\mathrm{SPE}}.$$

Note that if selective-punishment strategies described in Section 2 form a strict SPE under complete information, then they satisfy the iterative stage-dominance property of

[26] We omit public randomizations to simplify notation.

Lemma 7 and hence sustain cooperation in a robust way. Selective-punishment strategies are strongly robust under a larger set of parameters (δ, b, c) than grim-trigger strategies. However, DC may be enforceable under complete information even if $b - 1 < \delta/(1-\delta) < c$ and hence selective-punishment strategies are not an SPE (see Stahl 1991). Even in such circumstances, Proposition 4 guarantees the possibility of sustaining cooperation robustly, but the strategies used are more sophisticated.[27]

6. A folk theorem in strongly robust PPEs

In this section, we prove a folk theorem in strongly robust PPEs, which is an analogue of Fudenberg et al. (1994; henceforth FLM) but requires stronger identifiability conditions on the monitoring structure. Under these conditions, we show that every interior point of the set of feasible and individually rational payoff profiles can be sustained by some strongly robust PPE for δ sufficiently close to 1. It implies that if public outcomes are informative, then, as δ goes to 1, requiring robustness does not impose any essential restriction on the set of equilibrium payoff profiles. A useful corollary is that, for discount factor high enough, if the set of feasible and individually rational payoff profiles is full dimensional, then there exist strongly robust PPEs. This is a valuable result since the existence of robust equilibria is not guaranteed in static games (see Example 3.1 in KM). We also provide an example in which the folk theorem in strongly robust PPEs does not hold under FLM's weaker identifiability conditions. This occurs because robustness constraints require us to control continuation payoffs upon joint deviations rather than just unilateral deviations.

The monitoring structure (Y, π) has *strong full rank* if $\{\pi(\cdot|a) \in \mathbb{R}^Y \mid a \in A\}$ is linearly independent. The strong full rank condition implies $|Y| \geq |A|$. Conversely, if $|Y| \geq |A|$, then the strong full rank condition is generically satisfied. As its name suggests, the strong full rank condition is more demanding than FLM's pairwise full rank condition for all pure action profiles.

Let us denote by

$$NV^* = \left\{ v \in \operatorname{co} g(A) \,\middle|\, \forall i \in N, v_i \geq \min_{a_{-i} \in A_{-i}} \max_{a_i \in A_i} g_i(a_i, a_{-i}) \right\}$$

the set of feasible and individually rational values normalized to stage-game units. Note that we use pure-action minimax values since strongly robust PPEs are pure. We denote by $NV^{\text{rob}}(\delta) \equiv (1-\delta)V^{\text{rob}}$ the set of normalized strongly robust PPE payoff profiles in Γ_G given discount factor δ. The normalization by $(1-\delta)$ ensures that equilibrium values are also expressed in fixed stage-game units. The following result holds.

Theorem 2 (Folk theorem). *For every discount factor $\delta < 1$, $NV^{\text{rob}}(\delta) \subseteq NV^*$. If the monitoring structure (Y, π) has strong full rank, then, for every compact subset K of $\operatorname{int} NV^*$, there exists $\underline{\delta} < 1$ such that, for every $\delta > \underline{\delta}$, $K \subseteq NV^{\text{rob}}(\delta)$.*

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[27] The proof of Lemma 7 provides a description of such strategies. Since $\delta/(1-\delta) < c$, it is not possible to enforce DC by promising the cooperating player permanent cooperation in the future. However, it may be possible to enforce DC by promising the cooperating player that play will be CD for sufficiently many periods in the future.

We now describe an example that shows that the folk theorem in strongly robust PPEs may fail if the strong full rank condition is not satisfied. Consider the two-by-two game G_0 with action sets $A_1 = A_2 = \{L, R\}$ and public outcomes $Y = \{y_L, y_R, y_M\}$. If both players choose the same action $a \in \{L, R\}$, then signal y_a is realized with certainty. If player 1 chooses L and player 2 chooses R, then signal y_M is realized with certainty. If player 1 chooses R and player 2 chooses L, then all signals are realized with equal probability. Note that FLM's pairwise full rank condition is satisfied for every pure-action profile, but the strong full rank condition is not. Expected stage-game payoffs for game G_0 are given by

	L	R
L	$3, 3$	$0, 1$
R	$1, 0$	$0, 0$

so that minimax values are 0 for both players.[28] The following result holds.

Proposition 5 (Failure of the folk theorem). *In the repeated game Γ_{G_0}, for every discount factor $\delta < 1$, if a normalized payoff profile (v_1, v_2) is in $NV^{\mathrm{rob}}(\delta)$, then $v_1 - v_2 \le 1/2$.*

This implies that $NV^{\mathrm{rob}}(\delta)$ is bounded away from $(1, 0)$ so that the folk theorem does not hold in strongly robust PPEs for this game. Again, this occurs because robustness constraints require us to control continuation payoffs upon joint deviations rather than just unilateral deviations. Our counterexample is closely related to the counterexample developed by FLM when the pairwise full rank condition is not satisfied, but differs in subtle ways. Fudenberg et al. (1994) are able to construct a counterexample in which PPE payoff profiles are bounded away from a feasible and individually rational payoff profile in the direction of $(1, 1)$. Here, we show that strongly robust PPE payoff profiles are bounded away from a feasible and individually rational payoff profile in the direction of $(1, -1)$. The reason for this is that, upon unilateral deviation, continuation payoff profiles that enforce LL along the line orthogonal to $(1, 1)$ punish the deviator but reward the player who behaved appropriately. This enforces behavior in dominant actions, and hence robustly. In contrast, upon unilateral deviation, continuation payoff profiles that enforce RL along the line orthogonal to $(1, -1)$ punish both the deviator and the player who behaved appropriately. This reduces the robustness of RL and enables us to construct a counterexample. If the strong full rank condition were satisfied and a fourth informative signal allowed us to identify joint deviations, then we could enforce RL in dominant actions by making continuation payoff profiles upon joint deviations particularly low.

7. Conclusion

This paper provides a framework to study the robustness of repeated games strategies without committing to a specific incomplete-information perturbation, and highlights the applied implications of robustness considerations.

[28]These expected payoffs can be associated with outcome-dependent realized payoffs $r_i(a_i, y)$ of 3 if $y = y_L$, of -3 if $(i, a_i, y) = (2, L, y_M)$, of 1 if $(i, a_i, y) = (2, R, y_M)$, and 0 otherwise.

Our main technical contribution is the one-shot robustness principle, which reduces the analysis of a robust equilibrium of a dynamic game to the analysis of robust equilibria in an appropriate family of static games. This implies a factorization result for strongly robust PPE values. We show the practical value of these characterizations by means of two examples.

First, we compute explicitly the set of strongly robust SPE values in the repeated prisoners' dilemma. We show that cooperation can be sustained by a strongly robust SPE if and only if both (Cooperate, Cooperate) and (Defect, Cooperate) are enforceable under complete information. In the spirit of Chassang and Padró i Miquel (2010), we also show that concerns of robustness can significantly affect comparative statics. Finally, our analysis implies that selective-punishment strategies are more effective than grim-trigger strategies in sustaining cooperation in strongly robust SPEs. This occurs because grim-trigger strategies minimize predatory incentives but increase preemptive incentives. In contrast, selective-punishment strategies minimize both predatory and preemptive incentives.

Second, we prove a folk theorem in strongly robust PPEs for repeated games with imperfect public monitoring under the strong full rank condition. The identifiability conditions we use are stronger than those of FLM because robustness requires us to control all continuation values upon joint deviations, rather than just upon unilateral deviations.

Our approach is necessarily dependent on the class of perturbations against which we test for robustness. While we think of the class of perturbations we consider as a natural and informative benchmark, one may reasonably worry whether studying other classes of perturbations would lead to very different results. In this respect, it is informative to note that our results are unchanged if players have almost common priors or when payoff shocks are correlated across periods but private information is short lived.

Appendix A: Extensions

The notion of dynamic robustness we develop in Section 4 depends on the class of perturbations against which we test for robustness. In particular, we assume that players share a common prior and that perturbations are independent across periods. In this section, we discuss ways in which our framework can be extended to accommodate noncommon priors and persistent shocks.

A.1 *Noncommon priors*

This section considers two different classes of perturbations with noncommon priors, depending on how much variation in priors is allowed across players. First, we show that our analysis of robustness to incomplete information is unchanged even if players have priors that are different but close to each other. We then discuss cases in which the players' priors may differ significantly.

A.1.1 *Approximately common priors* Consider an incomplete-information game $(U, (P_i)_{i\in N})$ with noncommon priors, where $U=(N,\Omega,P,(A_i,u_i,Q_i)_{i\in N})$ is an incomplete-information game with an "objective" prior P over Ω, and P_i is player i's prior over Ω. Let

$$m(P,P_i)=\sup_{\omega\in\Omega}\left|\frac{P_i(\omega)}{P(\omega)}-1\right|$$

with a convention that $q/0=\infty$ for $q>0$ and $0/0=1$. The term $m(P,P_i)$ measures the proximity between the objective prior and player i's prior.

Definition 6 (Static robustness with almost common priors). For a constant $d\geq 0$, a pure Nash equilibrium a^* of a complete-information game G is *d-robust to incomplete information with almost common priors* if, for every $\eta>0$ and $M>0$, there exists $\varepsilon>0$ such that, for every (ε,d)-elaboration U of G with $|u|<M$ and profile of noncommon priors $(P_i)_{i\in N}$ with $m(P,P_i)\leq\varepsilon$ for every $i\in N$, the perturbed game $(U,(P_i)_{i\in N})$ has a Bayesian–Nash equilibrium α^* such that $P^{\alpha^*}(a^*)\geq 1-\eta$.

A pure Nash equilibrium a^* of G is *strongly robust to incomplete information with almost common priors* if it is d-robust to incomplete information with almost common priors for some $d>0$.

The following lemma shows that allowing for noncommon priors with small $m(P,P_i)$ does not affect strong robustness in static games.

Lemma 8 (Static equivalence of common and almost common priors). *If $d>d'>0$ and a pure Nash equilibrium a^* of G is d-robust to incomplete information with common priors in G, then a^* is d'-robust to incomplete information with almost common priors in G. Hence, strong robustness in the sense of Definition 6 is equivalent to that of Definition 2.*

Oyama and Tercieux (2010, Proposition 5.7) provide a similar result for p-dominant equilibria. We extend the definition of dynamic robustness given in Section 4 as follows.

Definition 7 (Dynamic robustness with almost common priors). For a constant $d\geq 0$, a pure PPE s^* of the repeated game Γ_G is *d-robust to incomplete information with almost common priors* if, for every $\eta>0$ and $M>0$, there exists $\varepsilon>0$ such that, for every sequence $\mathbf{U}=\{U_t\}_{t\in\mathbb{N}}$ of (ε,d)-elaborations of G with $|\mathbf{U}|<M$ and every sequence $\{(P_{it})_{i\in N}\}_{t\in\mathbb{N}}$ of noncommon priors with $m(P_t,P_{it})\leq\varepsilon$ for every $i\in N$ and $t\geq 1$, the induced dynamic incomplete-information game with noncommon priors has a PPE σ^* such that $P_t^{\sigma^*(h_{t-1},\cdot)}(s^*(h_{t-1}))\geq 1-\eta$ for every $t\geq 1$ and $h_{t-1}\in H_{t-1}$.

A pure PPE s^* of Γ_G is *strongly robust to incomplete information with almost common priors* if it is d-robust for some $d>0$.

Similarly to Theorem 1, the one-shot robustness principle holds. Namely, a PPE is strongly robust to incomplete information with almost common priors in Γ_G if and only if there exists $d>0$ such that, for every $h\in H$, $s^*(h)$ is d-robust to incomplete information with almost common priors in $G(w_{s^*,h})$. Therefore, Theorem 1 and Lemma 8 imply the following.

Proposition 6 (Dynamic equivalence of common and almost common priors). *If a pure PPE is strongly robust to incomplete information with common priors, then it is also strongly robust to incomplete information with almost common priors. Hence, strong robustness in the sense of Definition 7 is equivalent to that of Definition 3.*

A.1.2 *General noncommon priors* In the case where players have significantly different priors $(P_i)_{i\in N}$, in the sense that $m(P, P_i)$ is large, robustness to such perturbations is a much more stringent requirement than robustness to common-prior perturbations. In a generic static game, Oyama and Tercieux (2010) show that a Nash equilibrium is robust to incomplete information with noncommon priors if and only if it is iteratively dominant. One can extend their result to dynamic settings and show that a PPE is strongly robust to incomplete information with noncommon priors if and only if it is iteratively stage-dominant. Some of our results still apply in this case. For instance, in the repeated prisoners' dilemma, our characterization of strongly robust SPE values relies on iterative stage dominance (Lemma 7). As a consequence, the set of strongly robust SPE values is essentially the same whether we assume common priors or not. Similarly, the folk theorem (Theorem 2) holds without the common prior assumption because our proof relies only on iterative stage dominance.

A.2 *Persistent shocks*

We now extend the class of perturbations against which we test robustness to allow for payoff shocks that are correlated across periods. We show that our notion of robustness is unchanged if asymmetric information is short lived as long as the players are in "normal" states of the world (where "normal" will be made precise shortly).

The class of correlated perturbations we consider is described as follows. In addition to payoff-relevant states ω_t and information sets $Q_{i,t}$, we allow players to observe public signals $z_t \in Z_t$, where Z_t is countable. We refer to z_t as regimes and denote by $Z_t^* \subseteq Z_t$ a set of normal regimes, which will be defined shortly. Let P be the probability distribution over $\prod_{t\geq 1}(\Omega_t \times Z_t)$. Distribution P may exhibit significant correlation between states $(\omega_t)_{t\in\mathbb{N}}$.

We say that P is *ε-persistent along normal regimes* if

$$\left|\frac{P(\omega_t|z_1, \omega_1, \ldots, z_{t-1}, \omega_{t-1}, z_t)}{P(\omega_t|z_1, \ldots, z_t)} - 1\right| \leq \varepsilon$$

for every $t \geq 1$ and $(z_1, \omega_1, \ldots, z_t, \omega_t) \in \prod_{\tau=1}^{t}(Z_\tau^* \times \Omega_\tau)$. In words, if players have always been in normal regimes, then conditional on past regimes, private information over past states does not affect beliefs over the current state much. Note that once an abnormal regime is reached, past private information may become very relevant.

A sequence $\hat{\mathbf{U}} = (N, (\Omega_t, (A_i, u_{it}, Q_{it})_{i\in N}, Z_t)_{t\in\mathbb{N}}, P)$ of incomplete-information games that embed G with intertemporal correlation P is a *sequence of correlated (ε, d)-elaborations of G* if P is ε-persistent along normal regimes and, conditional on each sequence $(z_1, \dots, z_t) \in \prod_{\tau=1}^{t} Z^*_\tau$ of past normal regimes, the stage game is close to G with high probability, i.e.,

$$P\big(\{\omega_t \in \Omega_t \mid \forall i \in N, \forall \omega'_t \in Q_{it}(\omega_t), |u_{it}(\cdot, \omega'_t) - g_i| \le d\}|z_1, \dots, z_t\big) \ge 1 - \varepsilon,$$

and a regime in the next period is normal with high probability, i.e., $P(z_{t+1} \in Z^*_{t+1} \mid z_1, \dots, z_t) \ge 1 - \varepsilon$. Note that this need only hold conditional on past regimes being normal. In particular, abnormal regimes can be arbitrarily persistent.

Example. The class of correlated (ε, d)-elaborations includes the following perturbed prisoners' dilemma. In each period, players have private information over whether the game will stop next period. More formally, in each period t, a state $\omega_t \in \{1, \dots, L, L+1\}$ is drawn, players observe a public signal $z_t = \omega_{t-1}$ and a private signal $x_{i,t}$, where $x_{1,t} = \omega_t$ and $x_{2,t} = \omega_t - \xi_t$, with ξ_t an even coin flip over $\{0, 1\}$. Conditional on any $\omega_{t-1} \in \{1, \dots, L-1\}$, ω_t belongs to $\{1, \dots, L-1\}$ with high probability. If $\omega_{t-1} = L$, then $\omega_t = L + 1$. Finally, state $L + 1$ is absorbing. This information structure is ε-persistent along normal regimes $\{1, \dots, L-1\}$. In states $\omega_t \in \{1, \dots, L\}$, payoffs are those of the original prisoners' dilemma. In state $L + 1$, all payoffs are identically 0. State $L + 1$ corresponds to the de facto end of the game. In state L, player 1 knows that the game will end next period, while player 2 may be uncertain. ◊

Proposition 7 shows that robustness against such correlated (ε, d)-elaborations is equivalent to robustness against independent (ε, d)-elaborations. We say that a public history h_{t-1} is normal if and only if all past regimes are normal (i.e., for all $s \le t-1$, $z_s \in Z^*_s$).

Definition 8 (Dynamic robustness with persistent shocks). For a constant $d \ge 0$, a pure PPE s^* of the repeated game Γ_G is *d-robust to persistent incomplete information with public regimes* if, for every $\eta > 0$ and $M < \infty$, there exists $\varepsilon > 0$ such that, for every sequence $\hat{\mathbf{U}}$ of correlated (ε, d)-elaborations of G with $|\hat{\mathbf{U}}| < M$, the induced dynamic incomplete-information game has an equilibrium that puts probability at least $1 - \eta$ on $s^*(h_{t-1})$ at every normal public history $h_{t-1} \in H_{t-1}$.

A pure PPE s^* of Γ_G is *strongly robust to persistent incomplete information with public regimes* if it is d-robust to persistent incomplete information with public regimes for some $d > 0$.

Conditional on each public history, players may have different priors over current payoff shocks because they have observed different past signals. However, as long as past public regimes are normal, their beliefs over the current state will be close in the sense of Appendix A.1. Therefore, Proposition 6 implies the following.

Proposition 7 (Equivalence of perturbation classes). *If a PPE is strongly robust to independent incomplete information, then it is also strongly robust to persistent incomplete information with public regimes. Hence, strong robustness in the sense of Definition 8 is equivalent to that of Definition 3.*

This shows that correlations across shocks do not change our notion of robustness as long as asymmetric information is short lived while players are in normal regimes. Note that this result no longer holds if asymmetric information is long lived. For instance, if there is durable asymmetric information over past payoff shocks, then the literature on reputation shows that always defecting in the prisoners' dilemma need not remain an equilibrium. In contrast, because always defecting satisfies iterative stage dominance, it is clearly robust to the class of perturbations we consider in the paper.[29]

Appendix B: Proofs

B.1 *Proof of Proposition 1*

We first consider the case where $\delta/(1-\delta) > b-1+c$. Theorem 1 (given in Section 4.2) shows that a sufficient condition for the robustness of grim-trigger strategies is that at every history, the prescribed one-shot action profile be strictly risk-dominant in the stage game augmented with continuation values. In the case of grim-trigger strategies, this condition boils down to checking that CC is strictly risk-dominant in

	C	D
C	$1/(1-\delta), 1/(1-\delta)$	$-c, b$
D	$b, -c$	$0, 0$

which is equivalent to $\delta/(1-\delta) > b-1+c$.

We now turn to the case where $\delta/(1-\delta) < b-1+c$ and show that, in this case, grim-trigger strategies are not robust with respect to $\{\Gamma_{\mathrm{PD}}^L \mid L \geq 1\}$. Indeed, if grim-trigger strategies are robust to $\{\Gamma_{\mathrm{PD}}^L \mid L \geq 1\}$, then, for L large enough, Γ_{PD}^L has a PPE σ^* that is close to grim-trigger strategies at every history. Let $v_i(\sigma^*|a)$ denote player i's continuation payoff under σ^* after action profile a in the first period. Since σ^* is arbitrarily close to grim-trigger strategies, for $B > 0$ fixed and L large, $v_i(\sigma^*|CC)$ is arbitrarily close to 1, and $v_i(\sigma^*|CD)$, $v_i(\sigma^*|DC)$, and $v_i(\sigma^*|DD)$ are arbitrarily close to 0. Since $\delta/(1-\delta) < b-1+c$, we can insure that, for L large enough,

$$1+\delta v_i(\sigma^*|CC) - c + \delta v_i(\sigma^*|DC) < b + \delta v_i(\sigma^*|CD) + \delta v_i(\sigma^*|DD). \tag{3}$$

The rest of the proof shows by induction that both players play D in the first period under σ^*, which contradicts the robustness of grim-trigger strategies. If player 1 observes signal L, then, since B is sufficiently large, playing D is dominant for him. If player 2 observes signal L, she puts probability 1 on player 1 having observed signal L and playing D, and hence her best reply is to play D. Assume that if player 1 observes signal k, then he plays D. If player 2 observes signal $k-1$, then she puts probability at least 1/2 on player 1 having observed k. By the induction hypothesis, this implies that she puts probability at least 1/2 on player 1 playing D. Thus, by (3), her best reply is to

[29] See Mailath and Samuelson (2006) for a review of the reputation literature. See also Angeletos et al. (2007) for an analysis of the learning patterns that arise in a dynamic game of regime change where fundamentals are correlated across time.

play D. Similarly, if player 1 observes signal $k-1$, he puts probability 1/2 on player 2 having observed $k-1$ and playing D. By (3), his best reply is to play D.

B.2 *Proof of Proposition 2*

Similarly to the first half of Proposition 1, Proposition 2 follows from Lemma 3 and Theorem 1. Indeed it is straightforward to check that at any history, the prescribed equilibrium action profile is iteratively dominant in the stage game augmented with continuation values.

B.3 *Proof of Lemma 1*

Consider the game $G' = (N, (A_i, g_i')_{i \in N})$ such that, for every $i \in N$, $g_i'(a) = g_i(a) + d$ for $a \neq a^*$ and $g_i'(a^*) = g_i(a^*) - d$. Since G' is a $(0, d)$-elaboration of G, G' admits a Nash equilibrium arbitrarily close to a^*. By the closedness of the set of Nash equilibria, a^* is also a Nash equilibrium of G'. Therefore, a^* is a $2d$-strict equilibrium of G.

B.4 *Proof of Lemma 2*

The proof is by contradiction and follows the structure of KM (Proposition 3.2). It uses Lemmas 9 and 10, which are of independent interest and are given below.

Definition 9 (Canonical normalization). Consider an incomplete-information game $U = (N, \Omega, P, (A_i, u_i, Q_i)_{i \in N})$ and a strategy profile α^* of U. We call $\tilde{U} = (N, \tilde{\Omega}, \tilde{P}, (A_i, \tilde{u}_i, \tilde{Q}_i)_{i \in N})$ the *canonical normalization of U with respect to α^** if

(i) $\tilde{\Omega} = A$

(ii) for $\tilde{\omega} = a$, $\tilde{P}(\tilde{\omega}) = P^{\alpha^*}(a)$

(iii) $\tilde{Q}_i = \{\{a_i\} \times A_{-i} \mid a_i \in A_i\}$

(iv) for $\tilde{\omega} \in \{a_i\} \times A_{-i}$,

$$\tilde{u}_i(a_i', a_{-i}, \tilde{\omega}) = \frac{1}{\sum_{\omega \in \Omega} \alpha_i^*(\omega)(a_i) P(\omega)} \sum_{\omega \in \Omega} u_i(a_i', a_{-i}, \omega) \alpha_i^*(\omega)(a_i) P(\omega)$$

if the denominator on the right-hand side is nonzero, and $\tilde{u}_i(\cdot, \tilde{\omega}) = g_i$ otherwise.[30]

We say that $\tilde{\alpha}_i$ is *truthtelling in $\tilde{U}$* if $\tilde{\alpha}_i(\tilde{\omega})(a_i) = 1$ whenever $\tilde{\omega} \in \{a_i\} \times A_{-i}$.

Lemma 9 (Canonical normalization with respect to a Bayesian–Nash equilibrium). *Let $\tilde{U}$ be the canonical normalization of U with respect to α^*.*

(i) If U is an (ε, d)-elaboration of G with payoffs bounded by M, then $\tilde{U}$ is an $(\tilde{\varepsilon}, \tilde{d})$-elaboration of G, where $\tilde{\varepsilon} = n\varepsilon^{1/2}$ and $\tilde{d} = d + \varepsilon^{1/2}(|g| + M)$.

[30] The denominator is nonzero $\tilde{P}$-almost surely.

(ii) If α^* is a Bayesian–Nash equilibrium of U, then truthtelling is a Bayesian–Nash equilibrium of $\tilde{U}$.

Proof. Part (ii) follows directly from the definition of the canonical normalization.

For (i), let

$$\Omega_d = \big\{\omega \in \Omega \mid \forall i \in N, \forall \omega' \in Q_i(\omega), |u_i(\cdot, \omega') - g_i| \le d\big\}.$$

Since U is an (ε, d)-elaboration, $P(\Omega_d) \ge 1 - \varepsilon$. Let A_i' be the set of actions $a_i \in A_i$ such that

$$\sum_{\omega \in \Omega \setminus \Omega_d} \alpha_i^*(\omega)(a_i)P(\omega) \le \varepsilon^{1/2} \sum_{\omega \in \Omega} \alpha_i^*(\omega)(a_i)P(\omega)$$

and let $A' = \prod_{i \in N} A_i'$. We will show that, in $\tilde{U}$, every player i knows that $\tilde{u}_i$ is close to g_i on the event of A' and $\tilde{P}(A')$ is high.

For $\tilde{\omega} = a \in A'$, $i \in N$, and $\tilde{\omega}' \in \tilde{Q}_i(\omega) = \{a_i\} \times A_{-i}$, we have

$$\begin{aligned}
|\tilde{u}_i(\cdot, \tilde{\omega}') - g_i| &\le \frac{1}{\sum_{\omega \in \Omega} \alpha_i^*(\omega)(a_i)P(\omega)} \sum_{\omega \in \Omega} |u_i(\cdot, \omega) - g_i| \alpha_i^*(\omega)(a_i)P(\omega) \\
&\le d + \frac{1}{\sum_{\omega \in \Omega} \alpha_i^*(\omega)(a_i)P(\omega)} \sum_{\omega \in \Omega \setminus \Omega_d} |u_i(\cdot, \omega) - g_i| \alpha_i^*(\omega)(a_i)P(\omega) \\
&\le d + \varepsilon^{1/2}(|g| + M) = \tilde{d}
\end{aligned}$$

if $\sum_{\omega \in \Omega} \alpha_i^*(\omega)(a_i)P(\omega) > 0$, and $|\tilde{u}_i(\cdot, \tilde{\omega}') - g_i| = 0 \le \tilde{d}$ otherwise.

In the case of $\varepsilon = 0$, we have $\tilde{P}(A') = 1$ since $A_i' = A_i$ for every $i \in N$. In the case of $\varepsilon > 0$, for each $a_i \in A_i \setminus A_i'$, we have

$$\sum_{\omega \in \Omega \setminus \Omega_d} \alpha_i^*(\omega)(a_i)P(\omega) > \varepsilon^{1/2} \sum_{\omega \in \Omega} \alpha_i^*(\omega)(a_i)P(\omega).$$

Summing up both sides for all $a_i \in A_i \setminus A_i'$, we have

$$\begin{aligned}
\varepsilon \ge P(\Omega \setminus \Omega_d) &\ge \sum_{a_i \in A_i \setminus A_i'} \sum_{\omega \in \Omega \setminus \Omega_d} \alpha_i^*(\omega)(a_i)P(\omega) \\
&\ge \sum_{a_i \in A_i \setminus A_i'} \varepsilon^{1/2} \sum_{\omega \in \Omega} \alpha_i^*(\omega)(a_i)P(\omega) = \varepsilon^{1/2} \tilde{P}((A_i \setminus A_i') \times A_{-i});
\end{aligned}$$

thus $\tilde{P}((A_i \setminus A_i') \times A_{-i}) \le \varepsilon^{1/2}$. Thus, $\tilde{P}(A') \ge 1 - \sum_i \tilde{P}((A_i \setminus A_i') \times A_{-i}) \ge 1 - n\varepsilon^{1/2} = 1 - \tilde{\varepsilon}$. □

The point of canonical normalization is that, given a set of players and an action space, they form a finite-dimensional class of games.

Lemma 10 (Locally unique equilibrium). *If a^* is a strict equilibrium of G and G has no other correlated equilibrium, then there exists $d > 0$ such that the unique Bayesian–Nash equilibrium of any $(0, d)$-elaboration of G is to play a^* with probability 1.*

Proof. The proof is by contradiction. Assume that, for any $d > 0$, there exist a $(0, d)$-elaboration $U_d = (N, \Omega_d, P_d, (A_i, u_{id}, Q_{id})_{i\in N})$ of G and a Bayesian–Nash equilibrium α_d of U_d such that $P_d^{\alpha_d}(a^*) < 1$. Since the canonical normalization of a $(0, d)$-elaboration of G is also a $(0, d)$-elaboration of G by Lemma 9, without loss of generality, we can assume that U_d takes a canonical form and that α_d is truthtelling.

Since $P_d(a^*) < 1$, we define $\mu_d \in \Delta(A \setminus \{a^*\})$ by

$$\forall a \in A \setminus \{a^*\}, \quad \mu_d(a) = \frac{P_d(a)}{P_d(A \setminus \{a^*\})}.$$

Since truthtelling is a Bayesian–Nash equilibrium of U_d, we have that, for all $i \in N$, $a_i \in A_i \setminus \{a_i^*\}$, and $a_i' \in A_i$,

$$\sum_{a_{-i}\in A_{-i}} u_{id}(a_i, a_{-i}, \omega)\mu_d(a_i, a_{-i}) \geq \sum_{a_{-i}\in A_{-i}} u_{id}(a_i', a_{-i}, \omega)\mu_d(a_i, a_{-i})$$

whenever $\omega \in \{a_i\} \times A_{-i}$. As d goes to 0, payoff functions $u_d(\cdot, \omega)$ converge to g for every $\omega \in A$. Since $\mu_d \in \Delta(A \setminus \{a^*\})$, which is compact, as d goes to 0, we can extract a sequence of μ_d that converges to $\mu_0 \in \Delta(A \setminus \{a^*\})$. By continuity, we have that, for all $i \in N$, $a_i \in A_i \setminus \{a_i^*\}$, and $a_i' \in A_i$,

$$\sum_{a_{-i}\in A_{-i}} g_i(a_i, a_{-i})\mu_0(a_i, a_{-i}) \geq \sum_{a_{-i}\in A_{-i}} g_i(a_i', a_{-i})\mu_0(a_i, a_{-i}). \tag{4}$$

We now use distribution μ_0 to build a correlated equilibrium of G distinct from a^*. For $0 \leq q < 1$, define $\mu \in \Delta(A)$ by $\mu(a^*) = q$ and $\mu(a) = (1-q)\mu_0(a)$ for every $a \in A \setminus \{a^*\}$. It follows from the family of inequalities (4) and the fact that a^* is a strict equilibrium of G that, for q close enough to 1, μ is a correlated equilibrium of G. This contradicts the premise that a^* is the unique correlated equilibrium of G. □

We use ε-Bayesian–Nash equilibrium in the ex ante sense. That is, α^* is an ε-*Bayesian–Nash equilibrium* of U if

$$\sum_{\omega\in\Omega} u_i(\alpha^*(\omega), \omega)P(\omega) \geq \sum_{\omega\in\Omega} u_i(\alpha_i(\omega), \alpha^*_{-i}(\omega), \omega)P(\omega) - \varepsilon$$

for all $i \in N$ and all Q_i-measurable strategies α_i of player i.

Proof of Lemma 2. By Lemma 10, we know that there exists $d > 0$ such that a^* is the unique Bayesian–Nash equilibrium of any $(0, d)$-elaboration of G. Fix such d. Assume that there exists $\eta > 0$ such that, for all $\varepsilon > 0$, there exists an (ε, d)-elaboration $U_\varepsilon = (N, \Omega_\varepsilon, P_\varepsilon, (A_i, u_{i\varepsilon}, Q_{i\varepsilon})_{i\in N})$ of G such that any Bayesian–Nash equilibrium of U_ε induces probability less than $1 - \eta$ on a^*. Pick any such equilibrium α_ε. Without loss of generality, we can assume that there exists $M > 0$ such that $|u_\varepsilon| < M$ for all $\varepsilon > 0$. Let $\tilde{U}_\varepsilon$ be the canonical normalization of U_ε with respect to α_ε. By Lemma 9, truthtelling is a Bayesian–Nash equilibrium of $\tilde{U}_\varepsilon$, $\tilde{P}_\varepsilon(a^*) < 1 - \eta$, and $\tilde{U}_\varepsilon$ is an $(\tilde{\varepsilon}, \tilde{d})$-elaboration of G, where $\tilde{\varepsilon} = n\varepsilon^{1/2}$ and $\tilde{d} = d + \varepsilon^{1/2}(|g| + M)$.

Consider the game $\hat{U}_\varepsilon$ identical to $\tilde{U}_\varepsilon$ except that $\hat{u}_{i\varepsilon}(\cdot, \omega) = g_i$ whenever $|\tilde{u}_{i\varepsilon}(\cdot, \omega) - g_i| > \tilde{d}$. By an argument identical to KM (Lemma 3.4), truthtelling is a $2M\tilde{\varepsilon}$-Bayesian–Nash equilibrium of $\hat{U}_\varepsilon$. Note that game $\hat{U}_\varepsilon$ is a $(0, \tilde{d})$-elaboration of G with state space A. Now take ε to 0. Because the set of incomplete-information games with state space A and uniformly bounded payoff functions is compact, we can extract a convergent sequence of $(0, \tilde{d})$-elaborations $\hat{U}_\varepsilon$ such that $\hat{P}_\varepsilon(a^*) < 1 - \eta$. Denote by $\hat{U}_0$ the limit of the sequence.

By continuity, $\hat{U}_0$ is a $(0, d)$-elaboration of G, truthtelling is a Bayesian–Nash equilibrium of $\hat{U}_0$, and $\hat{P}_0(a^*) \leq 1 - \eta$. This contradicts the premise that a^* is the unique Bayesian–Nash equilibrium of all $(0, d)$-elaborations. □

B.5 *Proof of Lemma 3*

The proof of Lemma 3 is almost the same as that of Lemma 2. The only difference is to replace Lemma 10 by the following.

Lemma 11 (Locally unique equilibrium for fixed d). *If a^* is the iteratively d-dominant equilibrium of G, then the unique Bayesian–Nash equilibrium of any $(0, d/2)$-elaboration of G is to play a^* with probability* 1.

The proof of this lemma is straightforward and hence is omitted.

B.6 *Proof of Lemma 4*

We define the following notion.

Definition 10 ($(\mathbf{p}, d)$-dominance). For $d \geq 0$ and $\mathbf{p} = (p_1, \ldots, p_n) \in (0, 1]^n$, an action profile a^* is a *$(\mathbf{p}, d)$-dominant equilibrium* of G if, for all $i \in N$, $a_i \in A_i \setminus \{a_i^*\}$, and $\lambda \in \Delta(A_{-i})$ such that $\lambda(a_{-i}^*) \geq p_i$,

$$\sum_{a_{-i} \in A_{-i}} \lambda(a_{-i}) g_i(a_i^*, a_{-i}) \geq \sum_{a_{-i} \in A_{-i}} \lambda(a_{-i}) g_i(a_i, a_{-i}) + d.$$

If a^* is strictly $\mathbf{p}$-dominant with $\sum_i p_i < 1$, then it is $(\mathbf{q}, d)$-dominant for some $\mathbf{q}$ with $\sum_i q_i < 1$ and some $d > 0$. Lemma 4 follows from the following lemma.

Lemma 12 (Strong robustness of $(\mathbf{p}, d)$-dominant equilibria). *If a^* is $(\mathbf{p}, d)$-dominant in G with $\sum_i p_i < 1$, then it is $d/2$-robust in G.*

Proof. Since a^* is $(\mathbf{p}, d)$-dominant, for all $i \in N$, $a_i \in A_i \setminus \{a_i^*\}$, and $\lambda \in \Delta(A_{-i})$ such that $\lambda(a_{-i}^*) \geq p_i$,

$$\sum_{a_{-i} \in A_{-i}} \lambda(a_{-i}) g_i'(a_i^*, a_{-i}) \geq \sum_{a_{-i} \in A_{-i}} \lambda(a_{-i}) g_i'(a_i, a_{-i}) \tag{5}$$

whenever $|g' - g| \leq d/2$.

For any $(\varepsilon, d/2)$-elaboration $U = (N, \Omega, P, (A_i, u_i, Q_i)_{i\in N})$ of G, let us define

$$\Omega_{d/2} = \{\omega \in \Omega \mid \forall i \in N, \forall \omega' \in Q_i(\omega), |u_i(\cdot, \omega') - g_i| \le d/2\}.$$

By the definition of $(\varepsilon, d/2)$-elaborations, we have that $P(\Omega_{d/2}) \ge 1 - \varepsilon$. As in KM, we are now interested in the set of states where event $\Omega_{d/2}$ is common $\mathbf{p}$-belief, which we denote by $C^{\mathbf{p}}(\Omega_{d/2})$. Proposition 4.2 (the critical path result) of KM implies that

$$P(C^{\mathbf{p}}(\Omega_{d/2})) \ge 1 - (1 - P(\Omega_{d/2}))\frac{1 - \min_i p_i}{1 - \sum_i p_i}.$$

Since $\sum_i p_i < 1$, for any $\eta > 0$, there exists $\varepsilon > 0$ small enough such that, for any $(\varepsilon, d/2)$-elaboration U, $P(C^{\mathbf{p}}(\Omega_{d/2})) \ge 1 - \eta$. By (5) and KM (Lemma 5.2), U has an equilibrium α^* such that $\alpha_i^*(\omega)(a_i^*) = 1$ for all $\omega \in C^{\mathbf{p}}(\Omega_{d/2})$. Equilibrium α^* satisfies $P^{\alpha^*}(a^*) \ge P(C^{\mathbf{p}}(\Omega_{d/2})) \ge 1 - \eta$, which concludes the proof. □

B.7 *Proof of Lemma 5*

Fix any $t^0 \ge 1$ and $h^0 \in H_{t^0-1}$. Consider $\mathbf{U} = \{U_t\}$ such that $U_t = G$ for $t \ne t^0$ and $U_{t^0} = G' = (N, (A_i, g_i')_{i\in N})$ such that, for every $i \in N$, $g_i'(a) = g_i(a) + d$ for $a \ne s^*(h^0)$ and $g_i'(s^*(h^0)) = g_i(s^*(h^0)) - d$. Since every U_t is a $(0, d)$-elaboration of G, $\Gamma_{\mathbf{U}}$ admits a PPE arbitrarily close to s^*. By the closedness of the set of PPEs, s^* is also a PPE of $\Gamma_{\mathbf{U}}$; hence $s^*(h^0)$ is a Nash equilibrium of $G'(w_{s^*,h^0})$. Therefore, $s^*(h^0)$ is a $2d$-strict equilibrium of $G(w_{s^*,h^0})$.

B.8 *Proof of Theorem 1*

For an incomplete-information game $U = (N, \Omega, P, (A_i, u_i, Q_i)_{i\in N})$ and $w: Y \to \mathbb{R}^n$, let $U(w)$ be the incomplete-information game with payoffs $u_i(a, \omega) + \delta\mathbb{E}[w_i(y)|a]$ for every $i \in N$, $a \in A$, and $\omega \in \Omega$. Recall that, for a sequence $\mathbf{U} = \{U_t\}_{t\in\mathbb{N}}$ of incomplete-information games, $\Gamma_{\mathbf{U}}$ denotes the infinite-horizon game in which players play U_t in period t. For a strategy profile σ of $\Gamma_{\mathbf{U}}$ and a history $h \in H$, let $w_{\sigma,h}$ be the continuation-payoff profile given by $w_{\sigma,h}(y) = (v_i(\sigma|(h, y)))_{i\in N}$ for each $y \in Y$. A strategy profile σ^* is a PPE of $\Gamma_{\mathbf{U}}$ if and only if $\sigma^*(h_{t-1}, \cdot)$ is a Bayesian–Nash equilibrium of $U_t(w_{\sigma^*,h_{t-1}})$ for all $h_{t-1} \in H$.

For the "only if" part, suppose that s^* is a d-robust PPE of Γ_G for some $d > 0$. By Lemma 5, $s^*(h)$ is a $2d$-strict equilibrium of $G(w_{s^*,h})$ for every $h \in H$.

Pick any $t^0 \ge 1$ and $h^0 \in H_{t^0-1}$. We want to show that $s^*(h^0)$ is d-robust in $G(w_{s^*,h^0})$. That is, for every $\eta > 0$, there exists $\varepsilon > 0$ such that every (ε, d)-elaboration of $G(w_{s^*,h^0})$ has a Bayesian–Nash equilibrium that puts probability at least $1 - \eta$ on $s^*(h^0)$.

Fix any $\eta > 0$. Since s^* is d-robust, there exists $\varepsilon > 0$ such that, for every sequence $\mathbf{U} = \{U_t\}$ of (ε, d)-elaborations of G with $|\mathbf{U}| \le 2|g|/(1-\delta) + d$, $\Gamma_{\mathbf{U}}$ has a PPE that puts probability at least $1 - \eta$ on $s^*(h)$ for every $h \in H$. Fix such ε. Pick any (ε, d)-elaboration $U = G(w_{s^*,h^0})$ of $G(w_{s^*,h^0})$. Without loss of generality, it is sufficient to consider elaborations such that $|U| \le |g|/(1-\delta) + d$. Consider the "one-shot" sequence $\mathbf{U} = \{U_t\}$ such that $U_t = G$ for all $t \neq t^0$ and $U_{t^0} = U - \delta w_{s^*,h^0}$.[31] We have that $|\mathbf{U}| \leq 2|g|/(1-\delta) + d$. Let σ^* be a PPE of $\Gamma_{\mathbf{U}}$ that puts probability at least $1-\eta$ on $s^*(h)$ for every $h \in H$. Note that $\sigma^*(h)$ is a Nash equilibrium of $G(w_{\sigma^*,h})$ for every $h \in H_{t-1}$ with $t \neq t^0$ and that $\sigma^*(h^0, \cdot)$ is a Bayesian–Nash equilibrium of $U(w_{\sigma^*,h^0})$.

Without loss of generality, we can assume η to be small enough so that the following statements hold.

- For every $t^1 > t^0$, $h^1 \in H_{t^1-1}$, and $\mathbf{U} = \{U_t\}$ with $|\mathbf{U}| < M'$ and $U_t = G$ for all $t \neq t^0$, if a strategy profile σ of $\Gamma_{\mathbf{U}}$ puts probability at least $1-\eta$ on $s^*(h)$ for every $h \in H$, then $|w_{\sigma,h^1} - w_{s^*,h^1}| \leq d$.
- If a^* is a $2(1-\delta)d$-strict equilibrium of some $G' = (N, (A_i, g'_i)_{i\in N})$, then G' has no other Nash equilibria in the η-neighborhood of a^*.

We now show that $\sigma^*(h) = s^*(h)$ for every $t > t_0$ and $h \in H_{t-1}$.[32] By the choice of η, we have $|w_{\sigma^*,h} - w_{s^*,h}| \leq d$. Then, since $s^*(h)$ is $2d$-strict in $G(w_{s^*,h})$, $s^*(h)$ is $2(1-\delta)d$-strict in $G(w_{\sigma^*,h})$. Since $G(w_{\sigma^*,h})$ has no other Nash equilibria in the η-neighborhood of $s^*(h)$, then $\sigma^*(h) = s^*(h)$.

Therefore, we have $w_{\sigma^*,h^0} = w_{s^*,h^0}$ and hence $\sigma^*(h^0, \cdot)$ is a Bayesian–Nash equilibrium of $U'(w_{\sigma^*,h^0}) = U'(w_{s^*,h^0}) = U$ that puts probability at least $1-\eta$ on $s^*(h^0)$.

For the "if" part, suppose that there exists $d > 0$ such that, for every $h \in H$, $s^*(h)$ is a d-robust PPE of $G(w_{s^*,h})$. Fix any d' with $0 < d' < (1-\delta)d$. We will show that, for every $\eta > 0$ and $M > 0$, there exists $\varepsilon > 0$ such that, for every sequence $\mathbf{U} = \{U_t\}$ of (ε, d')-elaborations of G with $|\mathbf{U}| < M$, $\Gamma_{\mathbf{U}}$ has a PPE σ^* that puts probability at least $1-\eta$ on $s^*(h)$ for every $h \in H$.

Fix any $M > 0$. Pick $\bar{\varepsilon} > 0$ and $\bar{\eta} > 0$ such that, for every $t \geq 1$, $h \in H_{t-1}$, and $\mathbf{U} = \{U_t\}$ of (ε, d')-elaborations of G with $|\mathbf{U}| < M$, if strategy profile σ of $\Gamma_{\mathbf{U}}$ puts probability at least $1-\bar{\eta}$ on $s^*(h')$ for all $h' \in H_{t'-1}$ with $t' > t$, then $|w_{\sigma,h} - w_{s^*,h}| \leq d'/(1-\delta)$. Pick $d'' > 0$ such that $d'/(1-\delta) + \delta d'' < d$. Fix any $\eta > 0$. We can assume without loss of generality that $\eta < \bar{\eta}$.

For each $a \in A$, since the set of continuation-payoff profiles $w_{s^*,h}$ for all $h \in H$ is a bounded subset of $\mathbb{R}^{n|A|}$, there exists a finite set of histories, $H(a)$, such that $s^*(h) = a$ for every $h \in H(a)$ and, whenever $s^*(h') = a$, then $|w_{s^*,h'} - w_{s^*,h}| \leq d''$ for some $h \in H(a)$.

For each $a \in A$ and $h \in H(a)$, since a is d-robust in $G(w_{s^*,h})$, there exists $\varepsilon_h > 0$ such that every (ε_h, d)-elaboration of $G(w_{s^*,h})$ has a Bayesian–Nash equilibrium that puts probability at least $1-\eta$ on a. Let $\varepsilon = \min(\bar{\varepsilon}, \min_{a\in A} \min_{h\in H(a)} \varepsilon_h) > 0$. Then, for every $h \in H$, every (ε, d')-elaboration of $G(w_{s^*,h})$ has a Bayesian–Nash equilibrium that puts probability at least $1-\eta$ on $s^*(h)$. Note that ε is chosen uniformly in $h \in H$.

Fix any sequence $\mathbf{U} = \{U_t\}_{t\in\mathbb{N}}$ of $(\varepsilon, d'/(1-\delta))$-elaborations of G with $|\mathbf{U}| < M$. Now we construct a PPE σ^* of $\Gamma_{\mathbf{U}}$ as follows.

For each $T < \infty$, consider the "truncated" sequence $\mathbf{U}^T = \{U_t^T\}_{t\in\mathbb{N}}$ of elaborations such that $U_t^T = U_t$ for $t \leq T$ and $U_t^T = G$ for all $t > T$. We backwardly construct a PPE σ^T of $\Gamma_{\mathbf{U}^T}$ as follows.

[31] The notation $U - \delta w_{s^*,h^0}$ denotes the incomplete-information game with payoffs $u(\cdot, \omega) - \delta w_{s^*,h^0}$.

[32] Since U_t is a complete-information game G for $t \neq t_0$, we suppress ω_t from the notation $\sigma^*(h, \omega_t)$.

- For $h \in H_{t-1}$ with $t > T$, let $\sigma^T(h) = s^*(h)$.
- For $h \in H_{t-1}$ with $t \le T$, let $\sigma^T(h, \cdot)$ be a Bayesian–Nash equilibrium of $U_t(w_{\sigma^T,h})$ that puts probability at least $1 - \eta$ on $s^*(h)$. Such a Bayesian–Nash equilibrium exists because $\sigma^T(h', \cdot)$ puts probability at least $1 - \eta$ on $s^*(h')$ for all $h' \in H_{t'-1}$ with $t' > t$ and thus $|w_{\sigma^T,h} - w_{s^*,h}| \le d'/(1-\delta)$. Therefore, $U_t(w_{\sigma^T,h})$ is an $(\varepsilon, d'/(1-\delta))$-elaboration of $G(w_{s^*,h})$.

Since the set of all public-strategy profiles is a compact metric space in the product topology, let σ^* be the limit of $\{\sigma^T\}_{T\in\mathbb{N}}$ (take a subsequence if necessary). That is, $\sigma^T(h, \omega_t) \to \sigma^*(h, \omega_t)$ as $T \to \infty$ pointwise for all $t \ge 1$, $h \in H_{t-1}$, and $\omega_t \in \Omega_t$. By the upper hemicontinuity of PPEs with respect to payoff perturbations, σ^* is a PPE of $\Gamma_{\mathbf{U}}$. By the construction of σ^*, $\sigma^*(h, \cdot)$ puts probability at least $1 - \eta$ on $s^*(h)$ for every $h \in H$.

B.9 *Proof of Lemma 6*

(i) holds by the definition of B^d. (ii) and (iii) follow from Tarski's fixed point theorem.

B.10 *Proof of Corollary 2*

We first show that $V^{\text{rob}} = \bigcup_{d>0} V^d$. For each $v \in V^{\text{rob}}$, let s^* be a strongly robust PPE of Γ_G that yields value v. Then, by Theorem 1, there exists $d > 0$ such that $V^* = \{v(s^*|h) \in \mathbb{R}^n \mid h \in H\}$ is self-generating with respect to B^d. By Lemma 6, $v \in V^* \subseteq V^d$. Thus $V^{\text{rob}} \subseteq \bigcup_{d>0} V^d$. Let us turn to the other direction of set inclusion.

For each $d > 0$, since V^d is self-generating with respect to B^d, for each $v \in V^d$, there exist $a(v) \in A$ and $w(v, \cdot): Y \to V^d$ such that $w(v, \cdot)$ enforces $(a(v), v)$ d-robustly. Pick any $v \in V^d$. We construct s^* recursively as follows: $s^*(\varnothing) = a(v)$, $s^*(y_1) = a(w(v, y_1))$, $s^*(y_1, y_2) = a(w(w(v, y_1), y_2))$, and so on. By construction, $s^*(h)$ is d-robust in $G(w_{s^*,h})$ for every $h \in H$. Therefore, by Theorem 1, s^* is a strongly robust PPE of Γ_G that attains v, and thus $v \in V^{\text{rob}}$. Thus $V^d \subseteq V^{\text{rob}}$ for every $d > 0$.

Let us now show that $\bigcup_{d>0} V^d = \bigcup_{d>0} \bigcap_{k=0}^{\infty} (B^d)^k(F)$, which corresponds to APS's algorithm result. To this end, we define $\bar{B}^d(F)$ by the closure of $B^d(F)$. Denote $f^\infty(F) = \bigcap_{k=0}^{\infty} f^k(F)$ for $f = B^d$ or $\bar{B}^d$. By the monotonicity of B^d and $\bar{B}^d$ (Lemma 6), we have $V^d \subseteq (B^d)^\infty(F) \subseteq (\bar{B}^d)^\infty(F)$ for every $d > 0$.

To prove the opposite direction of set inclusion, we show that, for each $d > 0$, $(\bar{B}^d)^\infty(F)$ is self-generating with respect to $B^{d/2}$, which implies that $(\bar{B}^d)^\infty(F) \subseteq V^{d/2}$ by Lemma 6. Pick any $v \in (\bar{B}^d)^\infty(F)$. For each $k \ge 1$, since we have $v \in (\bar{B}^d)^\infty(F) \subseteq (\bar{B}^d)^k(F)$, there exist $a^k \in A$ and $w^k: Y \to (\bar{B}^d)^{k-1}(F)$ such that w^k enforces (a^k, v) d-robustly. Since A and Y are finite, and $(\bar{B}^d)^k(F)$ is compact, by taking a subsequence, we can assume without loss of generality that $a^k = a^*$ and $w^k \to w^*$ as $k \to \infty$ for some $a^* \in A$ and $w^*: Y \to \mathbb{R}^n$. This implies that there exists $k^* \ge 1$ such that $|w^{k^*} - w^*| \le d/(2\delta)$. Since w^{k^*} enforces (a^*, v) d-robustly, w^* enforces (a^*, v) $d/2$-robustly. Moreover, for each $k \ge 1$ and $y \in Y$, since $w^l(y) \in (\bar{B}^d)^{l-1}(F) \subseteq (\bar{B}^d)^{k-1}(F)$ for every $l \ge k$ and $(\bar{B}^d)^{k-1}(F)$ is compact, by taking $l \to \infty$, we have $w^*(y) \in (\bar{B}^d)^{k-1}(F)$. Since this holds for every $k \ge 1$, it follows that $w^*(y) \in (\bar{B}^d)^\infty(F)$. Thus $v \in B^{d/2}((\bar{B}^d)^\infty(F))$, and $(\bar{B}^d)^\infty(F)$ is self-generating with respect to $B^{d/2}$.

B.11 *Stahl's characterization*

Here we summarize the results of Stahl (1991), which characterize V^{SPE}, the set of SPE payoff profiles of Γ_{PD}, as a function of its parameters b, c, and δ. Given (b, c, δ), we define the parameters

$$
\begin{aligned}
p &= \frac{b+c}{1+c} \\
h &= \frac{(b-1)(5b-1)}{4b} \\
\delta^* &= \frac{(b-1)^2 - 2(1+c) + 2\sqrt{(1+c)^2-(b-1)^2}}{(b-1)^2} \\
q &= \max\left\{1, \frac{1+\delta+(1-\delta)b+\sqrt{[1+\delta+(1-\delta)b]^2-4(1-\delta)(b+c)}}{2}\right\}.
\end{aligned}
$$

Let us denote

V_0 the set of feasible and individually rational values of G, $V_0 = (1/(1-\delta))\operatorname{co}\{(0,0), (1,1), (0,p), (p,0)\}$

V_Q the set of values defined by $V_Q = (1/(1-\delta))\operatorname{co}\{(0,0), (1,1), (0,q), (q,0)\}$

V_T the set of values defined by $V_T = (1/(1-\delta))\operatorname{co}\{(0,0), (0,b-c), (b-c,0)\}$

V_D the set of values defined by $V_D = (1/(1-\delta))\operatorname{co}\{(0,0), (1,1)\}$.

Lemma 13 (Stahl 1991). *The set V^{SPE} is characterized as follows.*

(i) If $\delta \geq \max\{(b-1)/b, c/(c+1)\}$, then $V^{\mathrm{SPE}} = V_0$.

(ii) If $b-1 \leq c \leq h$ and $\delta \in [(b-1)/b, c/(c+1))$ or $c > h$ and $\delta \in [\delta^*, c/(c+1))$, then $V^{\mathrm{SPE}} = V_Q$.

(iii) If $c < b-1$ and $\delta \in [c/b, (b-1)/b)$, then $V^{\mathrm{SPE}} = V_T$.

(iv) If $c > h$ and $\delta \in [(b-1)/b, \delta^*)$, then $V^{\mathrm{SPE}} = V_D$.

(v) If $\delta < \min\{c/b, (b-1)/b\}$, then $V^{\mathrm{SPE}} = \{(0,0)\}$.

B.12 *Proof of Lemma 7*

The *SPE Pareto frontier* is the set of $v \in V^{\mathrm{SPE}}$ such that there is no $v' \in V^{\mathrm{SPE}}$ that Pareto-dominates v. We say that an SPE is *Pareto-efficient* if it induces a payoff profile on the SPE Pareto frontier. We begin with the following lemma. We say that $V \subseteq \mathbb{R}^n$ is *self-generating with respect to* $\operatorname{co} B$ if $V \subseteq \operatorname{co} B(V)$. (Recall that $B(V)$ is the set of all payoff profiles that are (not necessarily robustly) generated by V.)

Lemma 14 (SPE Pareto frontier of games in $\mathcal{G}_{DC/CC}$). *Let* $\mathrm{PD} \in \mathcal{G}_{DC/CC}$.

(i) *The SPE Pareto frontier is self-generating with respect to* $\text{co}\,B$.

(ii) *No Pareto-efficient SPE prescribes outcome* DD *on the equilibrium path.*

(iii) *The SPE Pareto frontier can be sustained by SPEs that prescribe outcome* CC *permanently along the equilibrium play once it is prescribed and that never prescribe outcome* DD *on or off the equilibrium path.*

Proof. From Stahl's characterization, we know that the set of SPE payoff profiles of Γ_{PD} takes the form $V^{\text{SPE}} = \text{co}\{(0,0), (1/(1-\delta), 1/(1-\delta)), (0,\phi), (\phi, 0)\}$, where $\phi \geq 1/(1-\delta)$. We begin with point (i). Pick a Pareto-efficient SPE s^*. Note that continuation-payoff profiles of s^* on the equilibrium path are always on the SPE Pareto frontier (otherwise, replacing the continuation strategies by a Pareto-dominating SPE would improve on s^*). In what follows, we modify s^* so that continuation values are on the SPE Pareto frontier even off the equilibrium path. This is possible because points $(0,\phi)$ and $(\phi, 0)$ belong to the SPE Pareto frontier. Consider strategy profile $\hat{s}^*$ that coincides with s^* on the equilibrium path, but such that, whenever player 1 deviates, continuation values are $(0,\phi)$, and whenever player 2 deviates alone, continuation values are $(\phi, 0)$. Since 0 is the minimax value for both players, the fact that s^* is an SPE implies that $\hat{s}^*$ is also an SPE. This shows that the SPE Pareto frontier is self-generating with respect to $\text{co}\,B$.

Let us turn to point (ii). Consider a Pareto-efficient SPE s^*. If there is an equilibrium history h at which DD is taken, then the strategy profile $\hat{s}^*$ obtained by skipping the history and instead playing as if the next period had already been reached is also an SPE and Pareto-dominates s^*. Hence, action DD is never used on the equilibrium path.[33]

We now proceed with point (iii). From point (i), we know that the SPE Pareto frontier is self-generating with respect to $\text{co}\,B$. Since we have public randomization, this implies that the SPE Pareto frontier can be generated by SPEs whose continuation payoff profiles are always extreme points of the convex hull of the SPE Pareto frontier. This is the bang-bang property of APS. There are three such points, $(0,\phi)$, $(\phi,0)$, and $(1/(1-\delta), 1/(1-\delta))$. Because $(1/(1-\delta), 1/(1-\delta))$ is not the discounted sum of payoffs upon action profiles other than CC, this implies that, in any SPE that sustains values $(1/(1-\delta), 1/(1-\delta))$, outcome CC is played permanently on the equilibrium path. Inversely, when values $(0,\phi)$ are delivered, the current action profile is CD (otherwise, player 1 would get strictly positive value), and when values $(\phi, 0)$ are delivered, the current action profile is DC. These imply that Pareto-efficient SPEs that take a bang-bang form are such that, once CC is prescribed, it is prescribed forever along the equilibrium play. Also, by point (ii), such SPEs never prescribe DD on or off the equilibrium path. □

Proof of Lemma 7. Let us consider $\text{PD} \in \text{int}\,\mathcal{G}_{DC/CC}$. Since, for every PD' sufficiently close to PD, CC is enforced by an SPE of $\Gamma_{\text{PD}'}$ with continuation-payoff profile $(1,1)$ after CC, we have $1 > (1-\delta)b$.

[33] If players only play DD following h, one can simply replace the entire continuation equilibrium by some SPE that gives the players strictly positive value.

For any $d \in (0,1)$, let us denote by PD_d the game

	C	D
C	$1, 1$	$-c, b$
D	$b, -c$	d, d

By subtracting d from all payoffs and dividing them by $1-d$, we obtain PD'_d with payoffs

	C	D
C	$1, 1$	$\frac{-c-d}{1-d}, \frac{b-d}{1-d}$
D	$\frac{b-d}{1-d}, \frac{-c-d}{1-d}$	$0, 0$

which is strategically equivalent to PD_d. Since $\mathrm{PD} \in \mathrm{int}\,\mathcal{G}_{DC/CC}$, there exists $\bar{d} \in (0,1)$ such that, for $d \in (0, \bar{d})$, we have that $\mathrm{PD}'_d \in \mathcal{G}_{DC/CC}$. This means that the set of SPE payoff profiles of $\Gamma_{\mathrm{PD}'_d}$ is a quadrangle $\mathrm{co}\{(0,0), (1/(1-\delta), 1/(1-\delta)), (0, \phi'), (\phi', 0)\}$, where $\phi' \geq 1/(1-\delta)$. Note that, since DC is enforceable under complete information in $\Gamma_{\mathrm{PD}'_d}$, we have $(-c-d)/(1-d) + \delta\phi' \geq 0$. By Lemma 14, we know that the SPE Pareto frontier of $\Gamma_{\mathrm{PD}'_d}$ is sustained by a class of SPEs such that continuation payoffs are always on the SPE Pareto frontier, once action profile CC is prescribed, it is prescribed forever along the equilibrium play, and action profile DD is never prescribed on or off the equilibrium path. Let us denote by $\mathcal{E}$ this class of strategy profiles.

Since game PD'_d is strategically equivalent to game PD_d, strategy profiles in $\mathcal{E}$ are also SPEs of Γ_{PD_d} and generate its SPE Pareto frontier. The SPE Pareto frontier of Γ_{PD_d} is obtained by multiplying equilibrium values of $\Gamma_{\mathrm{PD}'_d}$ by $1-d$ and adding $d/(1-\delta)$. We denote by ℓ_d this frontier: ℓ_d is the piecewise line that connects $(d/(1-\delta), \phi)$, $(1/(1-\delta), 1/(1-\delta))$, and $(\phi, d/(1-\delta))$, where $\phi = (1-d)\phi' + d/(1-\delta) \geq c/\delta + d/[\delta(1-\delta)]$. Note that in Γ_{PD_d}, continuation payoffs of these SPEs are at least $d/(1-\delta)$ at all histories.

Let us now show that strategy profiles in $\mathcal{E}$ are also SPEs of Γ_{PD}. This occurs because PD differs from PD_d only in that the payoff profile from DD is $(0,0)$ rather than (d,d). Since strategy profiles in $\mathcal{E}$ never use outcome DD and $d > 0$, whenever the one-shot incentive compatibility holds in Γ_{PD_d}, it also holds in Γ_{PD}. Hence strategy profiles in $\mathcal{E}$ are SPEs of Γ_{PD}. Since payoff profiles upon CD, DC, and CC are the same in PD and PD_d, $\mathcal{E}$ generates ℓ_d in Γ_{PD}, and continuation-payoff profiles of $\mathcal{E}$ in Γ_{PD} are always in ℓ_d. (ℓ_d may not be the SPE Pareto frontier of Γ_{PD}.)

We now reach the final step of the proof. First, permanent defection is strongly robust, and thus $(0,0) \in V^{\mathrm{rob}}$. Pick any $s^* \in \mathcal{E}$ that attains $v \in \ell_d$. Let us show that there exists $\hat{s}^*$ such that it attains v and $\hat{s}^*(h)$ is iteratively d-dominant in $\mathrm{PD}(w_{\hat{s}^*,h})$ for $d \in (0, \min\{\bar{d}, b-1, c, 1-(1-\delta)b\})$. For each history h, we modify continuation strategies as follows.

- If $s^*(h) = CD$, then replace off-path continuation-payoff profiles by $w(CC) = w(DC) = w(DD) = (0,0)$, where $(0,0)$ is generated by permanent defection. Since

$s^* \in \mathcal{E}$, we have that the value from playing CD at h is at least d. This yields that CD is iteratively d-dominant in $\mathrm{PD}(w_{\hat{s}^*,h})$. If $s^*(h) = DC$, a symmetric change makes DC iteratively d-dominant in a game $\mathrm{PD}(w_{\hat{s}^*,h})$, where off-path continuation-payoff profiles are set to $(0,0)$ while on-path continuation-payoff profiles are not changed.

- If $s^*(h) = CC$, then replace off-path continuation-payoff profiles by $w(DD) = (0,0)$, $w(DC) = (d/(1-\delta), \phi)$, and $w(CD) = (\phi, d/(1-\delta))$. Since $s^* \in \mathcal{E}$, the on-path continuation-payoff profile is $(1/(1-\delta), 1/(1-\delta))$. Since $1/(1-\delta) > b + (\delta/(1-\delta))d + d$ and $-c + \delta\phi \geq d$, CC is iteratively d-dominant in $\mathrm{PD}(w_{\hat{s}^*,h})$.

It results from this that every payoff profile in

$$\mathrm{co}\big(\{(0,0)\} \cup \ell_d\big) = \mathrm{co}\left\{(0,0), \left(\frac{1}{1-\delta}, \frac{1}{1-\delta}\right), \left(\frac{d}{1-\delta}, \phi\right), \left(\phi, \frac{d}{1-\delta}\right)\right\}$$

is sustained by some SPE that prescribes the iteratively d-dominant equilibrium of the corresponding augmented stage game at every history. By taking d to 0, we obtain that, for every $v \in \{(0,0), (1/(1-\delta), 1/(1-\delta))\} \cup \operatorname{int} V^{\mathrm{SPE}}$, there exist $d > 0$ and an SPE with payoff profile v that prescribes the iteratively d-dominant equilibrium of the corresponding augmented stage game at every history. This concludes the proof when $\mathrm{PD} \in \operatorname{int} \mathcal{G}_{DC/CC}$. A similar proof holds when $\mathrm{PD} \in \operatorname{int} \mathcal{G}_{DC}$. □

B.13 *Proof of Theorem 2*

Let $\Lambda = \{\lambda \in \mathbb{R}^n \mid |\lambda| = 1\}$ be the set of n-dimensional unit vectors. For each $\lambda \in \Lambda$ and $k \in \mathbb{R}$, let $H(\lambda, k) = \{v \in \mathbb{R}^n \mid \lambda \cdot v \leq k\}$. Following Fudenberg and Levine (1994), for each $\lambda \in \Lambda$ and $\delta < 1$, we define the *maximal score* $k(\lambda, \delta)$ by the supremum of $\lambda \cdot v$ such that v is d-robustly generated by $H(\lambda, \lambda \cdot v)$ under discount factor δ with some $d > 0$. (If there is no such v, let $k(\lambda, \delta) = -\infty$.) As in Lemma 3.1(i) of Fudenberg and Levine (1994), $k(\lambda, \delta)$ is independent of δ, thus is denoted $k(\lambda)$. Let $Q = \bigcap_{\lambda \in \Lambda} H(\lambda, k(\lambda))$. The set Q characterizes the limit of strongly robust PPE payoff profiles as $\delta \to 1$.

Lemma 15 (Limit of strongly robust PPE payoff profiles). *We have*

(i) $NV^{\mathrm{rob}}(\delta) \subseteq Q$ *for every* $\delta < 1$ *and*

(ii) if $\dim Q = n$, *then, for any compact subset* K *of* $\operatorname{int} Q$, *there exists* $\underline{\delta} < 1$ *such that* $K \subseteq NV^{\mathrm{rob}}(\delta)$ *for every* $\delta > \underline{\delta}$.

We omit the proof, for it only replaces the one-shot deviation principle in the proof of Theorem 3.1 of Fudenberg and Levine (1994) by Theorem 1.

Let e_i be the n-dimensional coordinate vector whose ith component is 1 and other components are 0.

Lemma 16 (Characterization of $k(\lambda)$). *Suppose that* (Y, π) *has strong full rank. Then*

(i) $k(\lambda) = \max_{a \in A} \lambda \cdot g(a)$ *for any* $\lambda \in \Lambda \setminus \{-e_1, \ldots, -e_n\}$

(ii) $k(-e_i) = -\min_{a_{-i}\in A_{-i}} \max_{a_i\in A_i} g_i(a)$

(iii) $Q = NV^*$.

Proof. Fix δ. For (i), first consider the case that λ has at least two nonzero components. Pick any $a^0 \in A$. Let $Y = \{y^1, \dots, y^L\}$ with $L = |Y|$. Arrange $A = \{a^0, a^1, \dots, a^K\}$ in a "lexicographic" order that puts $a_i^0 > a_i$ for $a_i \neq a_i^0$, i.e., $1 = k_n < \cdots < k_1 < k_0 = K+1$ such that $k_i = |A_{i+1} \times \cdots \times A_n|$ and $i = \min\{j \in N \mid a_j^k \neq a_j^0\}$ for every k with $k_i \le k < k_{i-1}$. Let $\Pi_i(a^0)$ be a $(k_{i-1} - k_i) \times L$ matrix whose (k,l) component is $\pi(a^{k_i+k-1})(y^l) - \pi(a_i^0, a_{-i}^{k_i+k-1})(y^l)$. By the strong full rank condition,

$$\begin{pmatrix} \Pi_i(a^0) \\ \Pi_j(a^0) \end{pmatrix}$$

has full row rank for every $i \neq j$.

First, we show that, for every $d > 0$, there exists w such that

$$(1-\delta)g_i(a^k) + \delta \sum_{y\in Y} \pi(a^k)(y) w_i(y) = (1-\delta) g_i(a_i^0, a_{-i}^k) + \delta \sum_{y\in Y} \pi(a_i^0, a_{-i}^k)(y) w_i(y) - d$$

for every $i \in N$ and k with $k_i \le k < k_{i-1}$, and $\lambda \cdot w(y) = \lambda \cdot g(a^0)$ for each $y \in Y$. Note that these conditions are written as a system of linear equations in the matrix form

$$\begin{pmatrix} \delta\Pi_n(a^0) & \cdots & O \\ \vdots & \ddots & \vdots \\ O & \cdots & \delta\Pi_1(a^0) \\ \lambda_n I & \cdots & \lambda_1 I \end{pmatrix} \begin{pmatrix} w_n(y^1) \\ \vdots \\ w_n(y^L) \\ \vdots \\ w_1(y^1) \\ \vdots \\ w_1(y^L) \end{pmatrix} = \begin{pmatrix} (1-\delta)(g_n(a_n^0, a_{-n}^1) - g_n(a^1)) - d \\ \vdots \\ (1-\delta)(g_n(a_n^0, a_{-n}^{k_{n-1}-1}) - g_n(a^{k_{n-1}-1})) - d \\ \vdots \\ (1-\delta)(g_1(a_1^0, a_{-1}^{k_1}) - g_1(a^{k_1})) - d \\ \vdots \\ (1-\delta)(g_1(a_1^0, a_{-1}^K) - g_1(a^K)) - d \\ \lambda \cdot g(a^0) \\ \vdots \\ \lambda \cdot g(a^0) \end{pmatrix},$$

where I is the identity matrix of size L. Since λ has at least two nonzero components and

$$\begin{pmatrix} \Pi_i(a^0) \\ \Pi_j(a^0) \end{pmatrix}$$

has full row rank for every $i \neq j$, the matrix

$$\begin{pmatrix} \delta\Pi_n(a^0) & \cdots & O \\ \vdots & \ddots & \vdots \\ O & \cdots & \delta\Pi_1(a^0) \\ \lambda_n I & \cdots & \lambda_1 I \end{pmatrix}$$

has full row rank. Thus the system of equations has a solution w.

Now note that a_1^0 is strictly dominant for player 1 in $G(w)$. More generally, a_i^0 is strictly dominant for player i in $G(w)$ if players $1, \ldots, i-1$ follow $a_1^0, \ldots, a_{i-1}^0$. Thus a^0 is iteratively d-dominant in $G(w)$. By Lemma 3, a^0 is strongly robust in $G(w)$; thus $k(\lambda) \geq \lambda \cdot g(a^0)$. Since this holds for any $a^0 \in A$, we have $k(\lambda) \geq \max_{a \in A} \lambda \cdot g(a)$. The other direction of the inequality is obvious.

Second, suppose that λ is a coordinate vector. Without loss of generality, we assume $\lambda = e_n$. Let $a^0 \in \arg\max_{a \in A} g_n(a)$. Arrange $A = \{a^0, \ldots, a^K\}$ as in the first case. Since (Y, π) has strong full rank, $\Pi_i(a^0)$ has full row rank for every $i \in N$. Thus, for every $d > 0$, there exist $\kappa > 0$ and w such that

$$(1-\delta)g_i(a^k) + \delta \sum_{y \in Y} \pi(a^k)(y)w_i(y) = (1-\delta)g_i(a_i^0, a_{-i}^k) + \delta \sum_{y \in Y} \pi(a_i^0, a_{-i}^k)(y)w_i(y) - d$$

for every $i < n$ and k with $k_i \leq k < k_{i-1}$,

$$(1-\delta)g_n(a_n^k, a_{-n}^0) + \delta \sum_{y \in Y} \pi(a_n^k, a_{-n}^0)(y)w_n(y) = (1-\delta)g_n(a^0) + \delta \sum_{y \in Y} \pi(a^0)(y)w_i(y) - d$$

for every k with $1 \leq k < k_{n-1}$, and $g_n(a^0) - \kappa d \leq w_n(y) \leq g_n(a^0)$. As argued in the previous case, a^0 is iteratively d-dominant in $G(w)$. By Lemma 3, a^0 is $d/2$-robust in $G(w)$. Also a^0 sustains $v = (1-\delta)g(a^0) + \delta\mathbb{E}[w(y)|a^0]$ such that $v_n \geq g_n(a^0) - \kappa d$ and $w_n(y) \leq g_n(a^0)$ for every $y \in Y$. Let $v' = v - \kappa d\delta/(1-\delta)e_n$ and $w'(y) = w(y) - \kappa d/(1-\delta)e_n$ for every $y \in Y$. Then w' enforces (a^0, v') $d/2$-robustly, $w_n'(y) \leq v_n'$ for every $y \in Y$, and $v_n' \geq g_n(a^0) - \kappa d/(1-\delta)$. Since $d > 0$ is arbitrary, we have $k(e^n) \geq g_n(a^0)$. The other direction of the inequality is obvious.

The proof of (ii) is similar to the proof of the second case of (i). The only difference is to use a minimax action profile for each player.

Part (iii) follows from (i) and (ii). □

Theorem 2 follows from Lemmas 15 and 16.

B.14 *Proof of Proposition 5*

Suppose that $\gamma := \sup\{v_1 - v_2 \mid (v_1, v_2) \in NV^{\text{rob}}(\delta)\} > \frac{1}{2}$ for some $\delta < 1$. For any $\varepsilon \in (0, \gamma)$, there exists $(v_1, v_2) \in V^{\text{rob}}(\delta)$ such that $(1-\delta)(v_1 - v_2) > \gamma - \varepsilon$ and action profile RL is taken at the initial history.[34] By Theorem 1, there exist $w(y_L), w(y_R), w(y_M) \in V^{\text{rob}}(\delta)$ that enforce $(RL, (v_1, v_2))$ robustly, i.e., such that RL is strongly robust in

$$G(w) = \begin{array}{c|cc} & L & R \\ \hline L & 3 + \delta w_1(y_L), 3 + \delta w_2(y_L) & \delta w_1(y_M), 1 + \delta w_2(y_M) \\ R & v_1, v_2 & \delta w_1(y_R), \delta w_2(y_R) \end{array},$$

[34] If this is not the case, delete several initial periods. This always increases $v_1 - v_2$ since $g_1(a) \leq g_2(a)$ for all $a \neq RL$.

where

$$v_1 = 1 + \tfrac{1}{3}\delta(w_1(y_L) + w_1(y_R) + w_1(y_M))$$
$$v_2 = \tfrac{1}{3}\delta(w_2(y_L) + w_2(y_R) + w_2(y_M)).$$

Let $\gamma(y) = (1-\delta)(w_1(y) - w_2(y))$ for each $y \in Y$. By the definition of γ, we have $\gamma(y) \leq \gamma$ for every $y \in Y$.

Since RL is a strict equilibrium of $G(w)$,

$$\tfrac{1}{3}\delta(w_2(y_L) + w_2(y_R) + w_2(y_M)) > \delta w_2(y_R) \tag{6}$$
$$1 + \tfrac{1}{3}\delta(w_1(y_L) + w_1(y_R) + w_1(y_M)) > 3 + \delta w_1(y_L). \tag{7}$$

Also, since LR is not strictly $(1/2, 1/2)$-dominant (KM, Lemma 5.5), either

$$3 + \delta w_1(y_L) + \delta w_1(y_M) \leq 1 + \tfrac{1}{3}\delta(w_1(y_L) + w_1(y_R) + w_1(y_M)) + \delta w_1(y_R) \tag{8}$$

or

$$1 + \delta w_2(y_M) + \delta w_2(y_R) \leq 3 + \delta w_2(y_L) + \tfrac{1}{3}\delta(w_2(y_L) + w_2(y_R) + w_2(y_M)). \tag{9}$$

If (8) holds, then (6) and (8) yield $3(1-\delta)/\delta < -\gamma(y_L) + 2\gamma(y_R) - \gamma(y_M)$. Hence,

$$\begin{aligned}\gamma - \varepsilon < (1-\delta)(v_1 - v_2) &= 1 - \delta + \frac{\delta}{3}(\gamma(y_L) + \gamma(y_R) + \gamma(y_M)) \\ &\leq 1 - \delta + \frac{\delta}{3}\left(-3\frac{1-\delta}{\delta} + 3\gamma(y_R)\right) \leq \delta\gamma,\end{aligned}$$

thus $\gamma < \varepsilon/(1-\delta)$. Since ε can be arbitrarily small, this contradicts with $\gamma > \frac{1}{2}$.

Similarly, if (9) holds, then (7) and (9) yield $3(1-\delta)/\delta < -2\gamma(y_L) + \gamma(y_R) + \gamma(y_M)$. Hence,

$$\begin{aligned}\gamma - \varepsilon < (1-\delta)(v_1 - v_2) &= 1 - \delta + \frac{\delta}{3}(\gamma(y_L) + \gamma(y_R) + \gamma(y_M)) \\ &\leq 1 - \delta + \frac{\delta}{3}\left(-\frac{3}{2}\frac{1-\delta}{\delta} + \frac{3}{2}\gamma(y_R) + \frac{3}{2}\gamma(y_R)\right) \leq \frac{1}{2}(1-\delta) + \delta\gamma,\end{aligned}$$

thus $\gamma < \frac{1}{2} + \varepsilon/(1-\delta)$. Since ε can be arbitrarily small, this contradicts $\gamma > \frac{1}{2}$.

B.15 *Proof of Lemma 8*

Fix $\eta > 0$ and $M > 0$. Since a^* is d-robust, there exists $\varepsilon_0 > 0$ such that every (ε, d)-elaboration of G has a Bayesian–Nash equilibrium that puts probability at least $1 - \eta$ on a^*. Let $\varepsilon = \min(\varepsilon, (d - d')/M) > 0$. Fix an (ε, d')-elaboration $U = (N, \Omega, P, (A_i, u_i, Q_i)_{i \in N})$ of G with $|u| < M$ and priors $(P_i)_{i \in N}$ with $m(P, P_i) \leq \varepsilon$. Consider an incomplete-information game $U' = (N, \Omega, P, (A_i, u'_i, Q_i)_{i \in N})$ with common prior P, where each u'_i is defined by $u'_i(\cdot, \omega) = (P_i(\omega)/P(\omega))u_i(\cdot, \omega)$ if $P(\omega) > 0$ and by $u'_i(\cdot, \omega) = 0$ otherwise. Since $|u'_i(\cdot, \omega) - u_i(\cdot, \omega)| \leq m(P, P_i)|u| < d - d'$ P-almost surely,

U' is an (ε, d)-elaboration of G, hence has a Bayesian–Nash equilibrium α^* that puts probability at least $1 - \eta$ on a^*. By the construction of U', α^* is also a Bayesian–Nash equilibrium of the noncommon prior game $(U, (P_i)_{i \in N})$.

B.16 *Proof of Proposition 6*

The proof is essentially identical to that of Theorem 1.

B.17 *Proof of Proposition 7*

We show that strong robustness in the sense of Definition 8 is also characterized by the one-shot robustness principle, i.e., if there exists $d > 0$ such that $s^*(h)$ is d-robust in $G(w_{s^*,h})$, then s^* is strongly robust in Definition 8. The proof is similar to that of Theorem 1. For each sequence $\hat{\mathbf{U}}$ of correlated (ε, d)-elaborations of G, we construct a PPE $\hat{\sigma}^T$ of truncated game $\Gamma_{\hat{\mathbf{U}}^T}$ close to s^* along normal regimes and take $T \to \infty$. For each sequence h_{t-1} of public signals, players' private information is summarized by the current public regime z_t. Thus, if $z_t \in Z_t^*$, then the continuation game is close to $G(w_{s^*,h_{t-1}})$; thus it has a Bayesian–Nash equilibrium $\hat{\sigma}^T(h_{t-1}, z_t, \cdot)$ that puts high probability on $s^*(h_{t-1})$. If $z_t \notin Z_t^*$, then players' actions outside normal regimes are determined arbitrarily by Kakutani's fixed point theorem.

Appendix C: Public randomization

Here we extend our framework to allow for public randomization. Given a complete-information game G, we denote by $\tilde{\Gamma}_G$ the repeated game of stage game G with public randomization, in which, at the beginning of each period t, players observe a common signal θ_t distributed uniformly on $[0,1)$ and independently of the past history. We write $\theta^t = (\theta_1, \dots, \theta_t) \in [0,1)^t$, $\tilde{h}_{t-1} = (h_{t-1}, \theta^t) \in \tilde{H}_{t-1} = H_{t-1} \times [0,1)^t$, and $\tilde{H} = \bigcup_{t \geq 1} \tilde{H}_{t-1}$. A pure strategy of player i is a mapping $s_i : \tilde{H} \to A_i$ such that there exists a sequence $\{R_t\}$ of partitions consisting of finitely many subintervals of $[0,1)$ such that $\tilde{s}_i(h_{t-1}, \cdot)$ is $R_1 \otimes \cdots \otimes R_t$-measurable on $[0,1)^t$ for every $h_{t-1} \in H$. Conditional on public history (h_{t-1}, θ^{t-1}), a strategy profile $\tilde{s}$ induces a probability distribution over sequences of future action profiles, which induces continuation payoffs

$$\forall i \in N, \forall h_{t-1} \in H, \forall \theta^{t-1} \in [0,1)^{t-1}, \quad v_i(\tilde{s} | (h_{t-1}, \theta^{t-1})) = \mathbb{E}\left[(1-\delta) \sum_{\tau=1}^{\infty} \delta^{\tau-1} g_i(a_{t+\tau-1}) \right].$$

Let $w_{\tilde{s},\tilde{h}}$ be the continuation-payoff profile given by $w_{\tilde{s},\tilde{h}}(y) = (v_i(\tilde{s} | (\tilde{h}, y)))_{i \in N}$ for each $y \in Y$. A strategy profile $\tilde{s}^*$ is a PPE if $v_i(\tilde{s}^* | (h_{t-1}, \theta^{t-1})) \geq v_i(\tilde{s}_i, \tilde{s}^*_{-i} | (h_{t-1}, \theta^{t-1}))$ for every $h_{t-1} \in H$, $\theta^{t-1} \in [0,1)^{t-1}$, $i \in N$, and $\tilde{s}_i$.

Given a sequence $\mathbf{U} = \{U_t\}_{t \in \mathbb{N}}$ of incomplete-information games, we consider the corresponding dynamic game $\tilde{\Gamma}_{\mathbf{U}}$ with public randomization. A mapping

$$\tilde{\sigma}_i : \bigcup_{t \geq 1} (\tilde{H}_{t-1} \times \Omega_t) \to \Delta(A_i)$$

is a public strategy of player i if there exists a sequence $\{R_t\}$ of partitions consisting of finitely many subintervals of $[0,1)$ such that $\tilde{\sigma}_i(\tilde{h}_{t-1},\cdot)$ is Q_{it}-measurable on Ω_t for every $\tilde{h}_{t-1}\in\tilde{H}$, and $\tilde{\sigma}_i(h_{t-1},\cdot,\omega_t)$ is $R_1\otimes\cdots\otimes R_t$-measurable on $[0,1)^t$ for every $h_{t-1}\in H$ and $\omega_t\in\Omega_t$. A public-strategy profile $\tilde{\sigma}^*$ is a PPE if $v_i(\tilde{\sigma}^*|(h_{t-1},\theta^{t-1}))\geq v_i(\tilde{\sigma}_i,\tilde{\sigma}^*_{-i}|(h_{t-1},\theta^{t-1}))$ for every $h_{t-1}\in H$, $\theta^{t-1}\in[0,1)^{t-1}$, $i\in N$, and public strategy $\tilde{\sigma}_i$ of player i.

We define d-robustness in repeated games with public randomization as follows.

Definition 11 (Dynamic robustness with public randomization). For $d\geq 0$, a PPE $\tilde{s}^*$ of $\tilde{\Gamma}_G$ is *d-robust* if, for every $\eta>0$ and $M>0$, there exists $\varepsilon>0$ such that, for every sequence $\mathbf{U}=\{U_t\}_{t\in\mathbb{N}}$ of (ε,d)-elaborations of G with $|\mathbf{U}|<M$, game $\tilde{\Gamma}_{\mathbf{U}}$ has a PPE $\tilde{\sigma}^*$ such that $P_t^{\tilde{\sigma}^*(\tilde{h}_{t-1},\cdot)}(\tilde{s}^*(\tilde{h}_{t-1}))\geq 1-\eta$ for every $t\geq 1$ and $\tilde{h}_{t-1}\in\tilde{H}_{t-1}$.

A PPE s^* is *strongly robust* if it is d-robust for some $d>0$.

Let $\tilde{V}^{\text{rob}}$ denote the set of all payoff profiles of strongly robust PPEs in $\tilde{\Gamma}_G$.

The following proposition is the one-shot robustness principle for repeated games with public randomization.

Proposition 8 (One-shot robustness principle with public randomization). *A strategy profile $\tilde{s}^*$ is a strongly robust PPE of $\tilde{\Gamma}_G$ if and only if there exists $d>0$ such that, for every $\tilde{h}\in\tilde{H}$, $\tilde{s}^*(\tilde{h})$ is a d-robust equilibrium of $G(w_{\tilde{s}^*,\tilde{h}})$.*

Proof. The proof of the "only if" part is essentially the same as that of Theorem 1, and thus is omitted.

The proof of the "if" part is very similar to that of Theorem 1. One difference is in the last step, where we construct a sequence of PPEs $\tilde{\sigma}^T$ of "truncated" games $\tilde{\Gamma}_{\mathbf{U}^T}$ and then take the limit of these PPEs to obtain a PPE of the original game $\tilde{\Gamma}_{\mathbf{U}}$. Here, because $\tilde{s}^*$ is adapted to some sequence $\{R_t\}$ of partitions consisting of finitely many subintervals of $[0,1)$, we can construct a PPE $\tilde{\sigma}^T$ of $\tilde{\Gamma}_{\mathbf{U}^T}$ truncated at period T such that $\tilde{\sigma}^T(h_{t-1},\cdot,\omega_t)$ is $R_1\otimes\cdots\otimes R_t$-measurable for every $h_{t-1}\in H$ and $\omega_t\in\Omega_t$. Since the set of all $\{R_t\}$-adapted public-strategy profiles is a compact metrizable space in the product topology, there exists $\tilde{\sigma}^*$ such that $\tilde{\sigma}^T(h_{t-1},\theta^t,\omega_t)\to\tilde{\sigma}^*(h_{t-1},\theta^t,\omega_t)$ pointwise as $T\to\infty$ for every $h_{t-1}\in H$, $\theta^t\in[0,1)^t$, and $\omega_t\in\Omega_t$, and uniformly in θ^t on each cell of $R_1\otimes\cdots\otimes R_t$ (take a subsequence if necessary). Then σ^* is a PPE of $\tilde{\Gamma}_{\mathbf{U}}$. □

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Submitted 2010-5-18. Final version accepted 2010-6-23. Available online 2010-6-23.