

Strategic Information Transmission with Informed Player's Veto

Tomoki Tsujita

Kobe University

Abstract

We extend the Crawford and Sobel (1982) model, which features an informed agent and an uninformed principal, and consider a cheap-talk setting in which the informed agent makes the final decision. In our model, the principal selects a default action at the beginning of the game. The agent, who has private information, observes the default action and sends a message to the principal. The principal then proposes an action to the agent. Finally, the agent decides whether to accept the proposed action; if the agent rejects it, the default action is implemented. We show that the principal may prefer an equilibrium in which the agent occasionally rejects some proposed actions rather than one in which the agent always accepts all of them. Furthermore, we analyze the optimal choice of the default action from the principal's perspective. Under the optimal default action, communication combined with the agent's veto power can yield a higher expected payoff for the principal than full delegation of decision-making authority to the agent.

Keywords: Cheap talk, Default action, Informed player's veto.

JEL Classification: D72, D82, D83.