ON INFORMATION DESIGN IN GAMES*

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ABSTRACT

Information disclosure in games influences behavior by affecting the players’ beliefs about the state, as well as their higher-order beliefs. We first characterize the extent to which a designer can manipulate players’ beliefs by disclosing information. Building on this, our next results show that all optimal solutions to information design problems are made of an optimal private and of an optimal public component, where the latter comes from concavification. This representation subsumes Kamenica and Gentzkow (2011)’s single-agent result. In an environment where the Revelation Principle fails, and hence direct manipulation of players’ beliefs is indispensable, we use our results to compute the optimal solution. In a second example, we illustrate how the private–public decomposition leads to a particularly simple and intuitive resolution of the problem.

Keywords: information design, disclosure, belief manipulation, belief distributions, extremal decomposition, concavification.

JEL Classification: C72, D82, D83.

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1. Introduction

In incomplete-information environments, a designer can affect an agent’s behavior by manipulating his payoffs, such as by taxing bad behavior, rewarding efforts, offering insurance, and so on. Alternatively, if the setting allows it, she can affect his behavior by manipulating his beliefs. Information design studies the latter: a designer commits to disclosing information to a group of players so as to induce them to behave in a desired way. The analysis of information design problems, especially in games, has been a focal point of the recent literature.

Under incomplete information, a player chooses an action based, in part, on his beliefs about the uncertain state of the world. Since his choice also depends on the other players’ actions, his beliefs about their beliefs about the state also affect his decision, as do his beliefs about their beliefs about his beliefs about the state, and so on. These higher-order beliefs are absent from the one-agent problem, but they are an inevitable part of strategic interactions under incomplete information.

This paper contributes to the foundations of information design in three ways:

- We establish the necessity of explicit belief manipulation in environments where the Revelation Principle fails. In these problems, harnessing beliefs is essential because action recommendations are insufficient for optimal design. Section 5 gives an example of a class of information design problems that can only be solved by working directly with players’ higher-order beliefs, and solves it by using the results in this paper.

- We characterize the extent to which a designer can manipulate players’ beliefs by disclosing information. Information in games influences players’ behavior by affecting their beliefs and higher-order beliefs. Thus, information design is truly an exercise in belief manipulation, whether or not players’ beliefs are used explicitly when solving a given information design problem. However, a designer disclosing information cannot generate any combination of beliefs she desires. How much leeway does she have in manipulating players’ beliefs? Our first proposition answers this question.

- We characterize the theoretical structure of optimal solutions. Our representation theorem and its two-step decomposition identify an important way in which optimal solutions can be seen as a combination of basic communication schemes. We show that the minimal common-belief components, defined later, are the basic communication schemes from which all others are constructed. This allows us to conclude that all optimal solutions consist of an optimal private and of an optimal public component, where the latter comes from concavification. These results yield the expression in games of Kamenica and Gentzkow (2011)’s single-agent result.
In single-agent problems, the minimal components are the agent’s posterior beliefs (i.e., his first-order beliefs), regardless of the specific environment, so that optimal solutions can be thought of as distributions over the agent’s posteriors. In games, the set of minimal common-belief components is much larger, and the relevant ones vary with the environment.

Section 6 introduces an example, called the Manager’s Problem, that illustrates how the decomposition into minimal components can divide the optimization problem into separate simpler steps, and lead to a particularly simple and intuitive resolution of the problem. This would be difficult to achieve using methods that compute the solution directly, in ‘one block’, as in Bergemann and Morris (2016) and Taneva (2014) (which formulate the Myersonian approach to Bayes Nash information design as a linear program).\(^1\) This is one of the hallmarks of Kamenica and Gentzkow (2011)’s work; however, it carries over only to some games. In particular, it is preserved in games with a hierarchical network structure, of which the Manager’s Problem is an example, provided the designer’s preferences are state-independent. There, our private-public information decomposition is especially illuminating. The paper ties this simplifying property of the decomposition to the dimension of the relevant minimal components relative to that of the final optimal solution.

The one-agent problem has been a rich subject of study since Kamenica and Gentzkow (2011) (e.g., Ely, Frankel, and Kamenica (2015), Lipnowski and Mathevet (2015), Kolotilin et al. (2015), etc.). By contrast, the theory of information design in games is not as well understood. Optimal solutions have been derived in specific environments, as in Vives (1988), Morris and Shin (2002) and Angeletos and Pavan (2007). More recent works study information design in voting games (Alonso and Câmara (2015), Chan et al. (2016)); dynamic bank runs (Ely (2017)); auctions (Bergemann, Brooks, and Morris (2017)); contests (Zhang and Zhou (2016)); or focus on public information in games (Laclau and Renou (2016)).

2. The Information Design Problem

Let \( \Theta \) be a finite set. A (base) game \( G = ((A_i, u_i)_{i \in N}, \mu_0) \) describes a set of players, \( N = \{1, \ldots, n \} \), interacting in an environment with uncertain state \( \theta \in \Theta \), distributed according to \( \mu_0 \in \Delta \Theta \). Every \( i \in N \) has finite action set \( A_i \) and utility function \( u_i : A \times \Theta \to \mathbb{R} \), where \( A = \prod_i A_i \) is the set of action profiles.

The designer is an external agent who discloses information about the state to the players, but otherwise does not participate in the strategic interaction. The

\(^1\)The Myersonian approach relies on revelation arguments, and thus cannot be used in environments where the Revelation Principle fails, as in Section 5.
designer’s utility function is given by \( v : A \times \Theta \to \mathbb{R} \). An information design environment is a pair \( \langle v, G \rangle \) consisting of a designer’s preference and a base game. Information disclosure is modeled by an information structure \( (S, \pi) \), where \( S_i \) is player \( i \)'s finite message space; \( S = \prod_i S_i \) is the set of message profiles; and \( \pi : \Theta \to \Delta S \) is the information map. In any state \( \theta \), the message profile \( s = (s_i) \) is drawn according to \( \pi(s|\theta) \) and player \( i \) observes \( s_i \). Let \( S_{-i} = \prod_{j \neq i} S_j \) and assume without loss that, for all \( i \) and \( s_i \in S_i \), there is \( s_{-i} \in S_{-i} \) such that \( \sum_{\theta} \pi(s|\theta) > 0 \) (otherwise, delete \( s_i \)).

The designer chooses the information structure at a time when she does not know \( \theta \) but has prior \( \mu_0 \), and so she commits ex-ante to disclosing information learned in the future. One can think of an information structure as an experiment concerning the state. The pair \( G = \langle G, (S, \pi) \rangle \) defines a Bayesian game in which players behave according to solution concept \( \Sigma(G) \subseteq \{ \sigma : S \to \Delta A \} \). The resulting set of distributions over action profiles and states is the important object that determines all payoffs. Thus, define the outcome correspondence associated with \( \Sigma \) as

\[
O_{\Sigma}(G) := \left\{ \gamma \in \Delta(A \times \Theta) : \exists \sigma \in \Sigma(G) \text{ s.t. } \gamma(a, \theta) = \sum_s \sigma(a|s) \pi(s|\theta) \mu_0(\theta) \forall (a, \theta) \right\}. \tag{1}
\]

Assume that \( O_{\Sigma}(G) \) is non-empty and compact for any given \( G \). For a fixed base game \( G \), we just write \( \Sigma(S, \pi) \) and \( O_{\Sigma}(S, \pi) \). The multiplicity of outcomes—standard in games under most solution concepts—gives us the opportunity to model the designer’s attitude about selection. Define a selection rule to be a function \( g : D \subseteq \Delta(\Theta \times A) \mapsto g(D) \in D \). Denote \( g^{(S, \pi)} := g(O_{\Sigma}(S, \pi)) \). The best and the worst outcomes are natural selection criteria: an optimistic designer uses the max-rule

\[
g^{(S, \pi)} \in \underset{\gamma \in O_{\Sigma}(S, \pi)}{\text{argmax}} \sum_{a, \theta} \gamma(a, \theta) v(a, \theta), \tag{2}
\]

while a pessimistic designer uses the min rule (just replace the argmax in (2) with argmin). Other criteria, such as random choice rules, are also sensible. Under selection rule \( g \), the value to the designer of choosing \( (S, \pi) \) is given as

\[
V(S, \pi) := \sum_{a, \theta} g^{(S, \pi)}(a, \theta) v(a, \theta). \tag{3}
\]

Thus, the information design problem is formulated as \( \sup_{(S, \pi)} V(S, \pi) \).
3. Information Design as Belief Manipulation

For single-agent problems, Kamenica and Gentzkow (2011) established that choosing an information structure is equivalent to choosing a Bayes plausible distribution over posterior beliefs. For many-agent problems, to which form of belief manipulation is information disclosure equivalent? To answer, we start off by defining the space of beliefs (now, hierarchies of) and distributions over those, and then prove the equivalence.

3.1. Distributions over Belief Hierarchies

A belief hierarchy \( t_i \) for player \( i \) is an infinite sequence \( (t^1_i, t^2_i, \ldots) \) whose components are coherent\(^2\) beliefs of all orders: \( t^1_i \in \Delta \Theta \) is \( i \)'s first-order belief; \( t^2_i \in \Delta(\Theta \times (\Delta \Theta)^{n-1}) \) is \( i \)'s second-order belief (i.e., a belief about \( \theta \) and every \( j \)'s first-order beliefs); and so on. Let \( T_i \) denote \( i \)'s set of belief hierarchies. Then, let \( T := \prod_i T_i \) and \( T_{-i} := \prod_{j \neq i} T_j \). Given a prior and an information structure \( (S, \pi) \), every player \( i \) formulates posterior beliefs \( \mu_i : S_i \rightarrow \Delta(\Theta \times S_{-i}) \) by Bayes’ rule. When player \( i \) receives a message \( s_i \) from \( (S, \pi) \), he has belief \( \mu_i(s_i) \) about the state and others’ messages. Since every player \( j \neq i \) has a belief \( \text{marg}_\Theta \mu_j(s_j) \) about the state given his own message \( s_j \), \( i \)'s belief about \( j \)'s messages \( s_j \) gives \( i \) a belief about \( j \)'s belief about the state and so on. By induction, every \( s_i \) corresponds to a belief hierarchy \( h_i(s_i) \) for player \( i \), and every message profile \( s \) corresponds to a profile of belief hierarchies \( (h_i(s_i))_i \). Let \( h : s \mapsto (h_i(s_i))_i \) be the map that associates to every \( s \) the corresponding profile of belief hierarchies. Now, say that an information structure \( (S, \pi) \) induces a distribution \( \tau \in \Delta T \) over profiles of belief hierarchies, called a belief-hierarchy distribution, if

\[
\tau(t) = \sum_\theta \pi(\{s : h(s) = t\} | \theta) \mu_0(\theta) \tag{4}
\]

for all \( t \). For example, the information structure in Table 1 induces \( \tau = \frac{3}{4} t_{1/3} + \frac{1}{4} t_1 \) when \( \mu_0 := \mu_0(\theta = 1) = \frac{1}{2} \), where \( t_\mu \) is the hierarchy profile in which \( \mu := \mu(\theta = 1) \) is commonly believed.\(^3\)

\(^2\)A hierarchy \( t \) is coherent if, for all \( k \), beliefs of order \( k \), \( t^k \), coincide with all beliefs of lower order, \( \{t^k_i\}_{k=1}^{n-1} \), on lower order events. For example, \( \text{marg}_\Theta t^2_i = t^1_i \).

\(^3\)To see why, note that \( \Pr(s_1, s_2) = \frac{1}{4} \), \( \Pr(s_2, s_2) = \frac{1}{4} \), and a player \( i \) receiving message \( s_\ell \) has beliefs \( (2\ell - 1)/3 \) that \( \theta = 1 \) and is certain that \( j \) also received \( s_\ell \).
Table 1: A (Public) Information Structure

|   | $\pi(-|0)$ | $s_1$ | $s_2$ | $\pi(-|1)$ | $s_1$ | $s_2$ |
|---|------------|------|------|------------|------|------|
|   |            | 1    | 0    |            | 1/2  | 0/2  |
|   |            | 0    | 0    |            | 0    | 1/2  |

3.2. Manipulation

In an information design problem with $\theta \in \{0, 1\}$,

\[
  u_i(a_i, \theta) = - (a_i - \theta)^2 \quad i = 1, 2 \\
  v(a, \theta) = u_1(a_1, \theta) - u_2(a_2, \theta),
\]

where both “players” care only about matching the state and the designer wants to favor 1 while harming 2, the designer could obtain her maximal payoff of 1, if she could somehow tell the truth to 1 while persuading 2 of the opposite. If this were possible, 1 would be certain that the state is $\theta$, 2 would be certain that the state is $1 - \theta$, and this disagreement would be commonly known. Since Aumann (1976), we have known that Bayesian agents cannot agree to disagree if they have a common prior. Given $\beta^*_{i : T_i \rightarrow \Delta(\Theta \times T_{-i})}$, (which is the Mertens-Zamir homeomorphism) describing $i$’s beliefs about $(\theta, t_{-i})$ given his hierarchy $t_i$,\(^4\) say that $p \in \Delta(\Theta \times T)$ is a **common prior** if

\[
p(\theta, t) = \beta^*_{i}(\theta, t_{-i}| t_i)p(t_i)
\]

for all $\theta, t$ and $i$. That is, all players $i$ obtain their belief map $\beta^*_{i}$ by Bayesian updating of the same distribution $p$. Denote by $\mathcal{C}$ the probability measures with finite support. From here, define

\[
  \mathcal{C} := \{ \tau \in \Delta^T : \exists \text{a common prior } p \text{ s.t. } \tau = \operatorname{marg}_T p \}
\]

(6)

to be the space of **consistent (belief-hierarchy) distributions**. In a consistent distribution, all players’ beliefs arise from a common prior that draws every $t$ with the same probability as $\tau$, i.e., $\tau = \operatorname{marg}_T p$. Let $p_\tau$ be the unique distribution $p$ in (6) (uniqueness follows from Mertens and Zamir (1985, Proposition 4.5))

**Proposition 1.** The following are equivalent:

(i) $\tau \in \Delta^T$ is induced by some $(S, \pi)$.

(ii) $\tau$ is consistent and $\sum_i \operatorname{marg}_T \beta^*_{i}(\cdot| t_i)\tau_i(t_i) = \mu_0$ for some $i$.

\(^4\)When there is no confusion, we write $\beta^*_{i}(t_{-i}| t_i)$ and $\beta^*_{i}(\theta| t_i)$ to refer to the marginals.
This characterization disciplines the designer’s freedom in shaping players’ beliefs, but only to the extent that (i) they are consistent and (ii) that some player’s (first-order) beliefs satisfy the Bayes plausibility constraint. In the one-agent case, information disclosure is equivalent to choosing a Bayes plausible distribution over (posterior) beliefs. In games, it is equivalent to choosing a Bayes plausible and consistent distribution over (hierarchies of) beliefs. Importantly, it does not matter which player $i$ satisfies Bayes plausibility in (ii), because by consistency, if it is true for one player, then it will hold for all.

Returning to the simple example above, if the designer would like to obtain a payoff of 1 with certainty, she must give full information to player 1, for otherwise she will not get an expected payoff of 0 from him. At the same time, she must fool player 2 all the time. Therefore, to reach the upper bound of 1, it would have to be that $\beta_1^*(\theta = 1, t_2|t_1) = 1$ and $\beta_2^*(\theta = 0, t_1|t_2) = 1$ for some $(t_1, t_2)$, so that (5) cannot hold. So, no information structure can deliver an expected payoff of 1. Given the nature of the problem, Proposition 1 rephrases it as saying that the designer wants players to “maximally disagree” on the value of the state, while their beliefs are consistent. From here, it is a small step to conclude that it is optimal for 1 to know the value of the state and for 2 to know as little as possible. In the language of information disclosure, it is optimal to give full information to 1 and no information to 2.

4. The Theoretical Structure Of Optimal Solutions

In this section, we prove that optimal solutions to information design problems in games can be seen as a patchwork of special consistent distributions, regardless of the method producing those solutions. In particular, this allows us to say that all optimal solutions consists of an optimal private and of an optimal public component, where the latter comes from concavification.

4.1. Assumptions

Our approach can handle various selection rules and solution concepts, which is one of its advantages, provided the following assumptions hold:

(Linear Selection). Assume $g$ is linear.\(^5\) Linearity of $g$ is a natural assumption that demands that the selection criterion be invariant to the subsets of distributions

\[^5\text{For all } D', D'' \text{ and } 0 \leq \alpha \leq 1, g(\alpha D' + (1 - \alpha)D'') = \alpha g(D') + (1 - \alpha)g(D'').\]
to which it is applied. The best and the worst outcomes, defined in (2), are linear selection criteria. Appendix B provides further detail about selection in the space of belief-hierarchy distributions.

**(Invariant Solution).** In the main text, we assume $\Sigma = \text{BNE}$ or $\Sigma = \text{ICR}_k$ (for $k \in \mathbb{N} \cup \{\infty\}$) for exposition reasons, though the results below are proved for all solution concepts $\Sigma$ that satisfy Assumption 1 in Appendix B. The definition of $\Sigma = \text{BNE}$ is standard: every $i$ uses a strategy $\sigma_i$ such that

$$\text{supp} \sigma_i(s_i) \subseteq \arg\max_{a_i} \sum_{s_{-i}, \theta} u_i(a_i, \sigma_{-i}(s_{-i}), \theta)\mu_i(\theta, s_{-i}|s_i)$$

for all $s_i$ and $i$, where payoffs are extended to mixed actions by linearity. The definition of $\Sigma = \text{ICR}_k$ (derived from Interim Correlated Rationalizability by Dekel, Fudenberg, and Morris (2007)) is also standard; since it does not interfere with understanding our results, we relegate it to the next section, where we use it explicitly.

### 4.2. Representations

When seen as belief manipulation, information design exhibits a convex structure that allows the designer to induce any belief distribution $\tau'' = \alpha \tau + (1 - \alpha)\tau'$ from $\tau$ and $\tau'$; provided that $\tau$ and $\tau'$ are consistent and $\tau''$ is Bayes plausible. In particular, this is true even if $\tau$ and $\tau'$ are not Bayes plausible. In technical terms, $C$ is convex; moreover, it admits extreme points. In the tradition of extremal representation theorems (as in the Minkowski–Carathéodory theorem, the Krein-Milman theorem, Choquet’s integral representation theorem, and so on), the designer thus can generate any Bayes plausible distribution of beliefs by “mixing” over extreme points. Importantly, these extreme points can be characterized: they are the minimal consistent distributions (Lemma 2). A consistent distribution $\tau \in C$ is **minimal** if there is no $\tau' \in C$ such that $\text{supp} \tau' \subset \text{supp} \tau$. The set of all minimal consistent distributions is denoted by $C^M$, and is nonempty by basic inclusion arguments.

Owing to their mathematical status of extreme points, the minimal consistent distributions correspond to the basic communication schemes at a given distribution of states, from which all others are constructed. In the one-agent case, they are (one-to-one to) the agent’s posterior beliefs, from which all random posteriors are constructed. The results below formalize their special role in optimal design.

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6Think of $\tau''$ as a probability distribution on $\{\tau, \tau'\}$.

7Minimal belief subspaces appear in different contexts in Heifetz and Neeman (2006), Barelli (2009), and Yildiz (2015).

8We further illustrate the notion of minimal distribution in Appendix F by characterizing minimal distributions for public and conditionally independent information.
Given selection rule \( g \), write the designer’s ex ante expected payoff as

\[
w : \tau \mapsto \sum_{\theta,t} g^\tau(a, \theta) v(a, \theta),
\]

where \( g^\tau \in \Delta(A \times \Theta) \) is the selected outcome in the Bayesian game \( \langle G, p_\tau \rangle \).

**Theorem 1** (Representation Theorem). The designer’s maximization problem can be represented as

\[
\sup_{(S, \pi)} V(S, \pi) = \sup_{\lambda \in \Delta'(C^M)} \sum_{e \in C^M} w(e)\lambda(e)
\]

subject to \( \sum_{e \in C^M} \text{marg}_\Theta p_e \lambda(e) = \mu_0 \).  

**Corollary 1** (Private–Public Information Decomposition). Fix an environment \( \langle v, G \rangle \). For any \( \mu \in \Delta \Theta \), let

\[
w^*(\mu) := \sup_{e \in C^M : \text{marg}_\Theta p_e = \mu} w(e).
\]

Then, the designer’s maximization problem can be represented as

\[
\sup_{(S, \pi)} V(S, \pi) = \sup_{\lambda \in \Delta' \Delta \Theta} \sum_{\text{supp } \lambda} w^*(\mu)\lambda(\mu)
\]

subject to \( \sum_{\text{supp } \lambda} \mu \lambda(\mu) = \mu_0 \).

From the representation theorem, the designer maximizes her expected utility as if she were optimally mixing over minimal consistent distributions, subject to posterior beliefs averaging to \( \mu_0 \) across those distributions. Every minimal distribution induces a Bayesian game and leads to an outcome for which the designer receives some expected utility. Every minimal distribution also induces a distribution over states, \( \text{marg}_\Theta p_e \), and the “further” it is from \( \mu_0 \), the more it “costs” the designer to use it. In this sense, the constraint in (8) can be seen as a form of budget constraint.

The corollary decomposes the representation theorem into two steps. First, there is a maximization within—given by (9)—that takes place among all the minimal distributions with marginal \( \mu \) and for all \( \mu \). The argument is that all minimal distributions with the same \( \mu \) contribute equally toward the Bayes plausibility constraint; hence, the designer should choose the best one among them. Since there are finitely many actions and states, \( \{w(e) : e \in C^M \text{ s.t. } \text{marg}_\Theta p_e = \mu\} \subseteq \mathbb{R} \) must
be bounded above, so this step is well-defined. All minimal distributions represent private information—the uninformative ones, \( \{ \delta_\mu : \mu \in \Delta \Theta \} \), are also a form of private information. In this sense, maximization within extracts the optimal private information component of a solution and produces (private) value-function \( w^* \). In applications of the corollary, we may want to maximize within particular subsets of minimal distributions, which will be discussed in the next subsection.

Second, there is a maximization between that concavifies the value function, thereby “patching together” the minimal distributions that are solutions to maximizations within. This step is akin to a public signal \( \lambda \) that sends all players to some minimal distributions \( e \), so that it becomes common knowledge among the players that they are in a particular \( e \). Let

\[
(cav w^*)(\mu) = \inf \{ g(\mu) : g \text{ concave and } g \geq w^* \}
\]

be the concave envelope of \( w^* \) evaluated at \( \mu \). From standard arguments, as in Rockafellar (1970, p.36), the rhs of (10) is a characterization of the concave envelope of function \( w^* \), so that the corollary delivers a concave-envelope characterization of optimal information design. In the one-agent case, \( \{ e \in C^M \text{ s.t. } \text{marg}_{\Theta} p_e = \mu \} = \{ \mu \} \), hence \( w^* = w \) in (9) and the theorem comes down to maximization between.

5. The Necessity To Manipulate Beliefs

In single-agent information design, the Revelation Principle applies very generally and makes action recommendations a close substitute for explicit belief manipulation. In information design in games, this is no longer true. As this section illustrates, there are important environments in which the Revelation Principle fails and explicit belief manipulation becomes essential. To avoid confusion, we should mention that the solution concept will not be responsible for the failure of the Revelation Principle in this section. Rather, it results from using \( \min \) instead of \( \max \) as a selection rule. \( \max \) lets the designer choose her favorite equilibrium, while \( \min \) requires all equilibria to provide at least a given payoff for the designer.\(^9\) In these problems, our results can be used to compute an optimal solution.

Since Rubinstein (1989), we have known that strategic behavior in games of incomplete information can depend crucially on the tail of the belief hierarchies. In

\(^9\)This distinction between one vs. many equilibria is reminiscent of the distinction between mechanism design and implementation theory. In the latter, the Revelation Principle is known to be inadequate. In one-agent information design, there is little difference between using \( \min \) vs. \( \max \), because the multiplicity of outcomes comes from indifferences. Thus, provided the designer is satisfied with \( \epsilon \)-optimality, her optimal value is nearly unchanged and achievable by action recommendations.
a design context, we may find it unsettling to induce the desired behavior by relying crucially on information acting on beliefs of very high order. In the example below, the solution concept reflects the designer’s intention to disclose information that is robust to misspecification of all beliefs above a given level. We focus on the classic global game of investment decisions of Carlsson and van Damme (1993) and Morris and Shin (2003), but the same analysis would extend to other games, in particular to other global games.

5.1. Investment Game with Bounded Depths of Reasoning

Two players decide whether or not to invest, \(\{I, N\}\), given uncertain state \(\theta \in \{-1, 2\}\) and state distribution \(\mu_0 = \text{Prob}(\theta = 2)\). The payoffs of the interaction are summarized in Table 2.

<table>
<thead>
<tr>
<th>((u_1, u_2))</th>
<th>I</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>(\theta, \theta)</td>
<td>(\theta - 1, 0)</td>
</tr>
<tr>
<td>N</td>
<td>(0, \theta - 1)</td>
<td>(0, 0)</td>
</tr>
</tbody>
</table>

Table 2: The Investment Game.

To study bounded depths of reasoning, we use finitely many iterations of the ICR algorithm (Dekel, Fudenberg, and Morris (2007)) and resolve any remaining multiplicity via the selection criterion. Given an information structure \((S, \pi)\), let \(R_{i,0}(s_i) := A_i\) for all \(i \in N\) and \(s_i \in T_i\). Then, for all \(k \in \mathbb{N}\), define

\[
R_{i,k}(s_i) := \left\{ a_i \in A_i : \begin{array}{l}
(1) \nu(s_{-i}, \theta, a_{-i}) > 0 \Rightarrow a_j \in R_{j,k-1}(s_j) \forall j \neq i \\
(2) a_i \in \arg \max a'_i \sum_{s_{-i}, \theta, a_{-i}} \nu(s_{-i}, \theta, a_{-i}) u_i(a'_i, a_{-i}, \theta) \\
(3) \sum_{a_{-i}} \nu(s_{-i}, \theta, a_{-i}) = \mu_i(s_{-i}, \theta | s_i) 
\end{array} \right\}
\]

ICR profiles at \(s\) are given by \(R(s) = \prod_i R_i(s_i)\), where \(R_i(s_i) := \cap_{k=0}^\infty R_{i,k}(s_i)\). Our choice of solution concept is \(\text{ICR}_k := \prod_i R_{i,k}\) because \(R_{i,k}\) involves only beliefs of up to order \(k\). That is, when the above procedure is stopped at finite \(k\), we are left with the set of predictions that correspond to actions that a type \(s_i\), who can reason only through \(k\)-many levels, cannot rationally eliminate. In a recent paper, Germano, Weinstein, and Zuazo-Garin (2016) provide epistemic foundations for \(\text{ICR}_k\). In particular, \(\text{ICR}_2\) corresponds to common 1-belief of rationality.

Suppose that the designer would like to persuade both players to invest irrespective of the state: \(v(a_1, a_2) = 1(a_1 = I) + 1(a_2 = I)\). Assume also that the designer
adopts a robust approach to the problem in that she evaluates her payoffs at the worst $k$-rationalizable profile when there are many. Define $g : 2^A_i \to A_i$ as

$$g(A'_i) = \begin{cases} \text{I} & \text{if } A'_i = \{1\}, \\ \text{N} & \text{otherwise} \end{cases}$$

and then define the outcome correspondence for any $k \in \mathbb{N}$

$$O_{ICR}^k(S, \pi) := \left\{ \gamma \in \Delta(A \times \Theta) : \gamma(a, \theta) := \sum_{s:a=\prod_i g(R_i,k(s))} \pi(s|\theta) \mu_0(\theta) \forall (a, \theta) \right\}. \quad (11)$$

### 5.2. Optimal Design

For simplicity, let us assume $k = 2$. For any $i$, let $\mu_i = \text{Prob}_i(\theta = 2)$ be $i$’s first-order belief, and $\lambda_i = \text{Prob}_i(\mu_{-i} > \frac{2}{3})$ be his second-order belief. Thus, we write

$$g(R_i,2(\cdot)) = \begin{cases} \text{I} & \text{if } 3\mu_i - 2 + \lambda_i > 0 \\ \text{N} & \text{otherwise}. \end{cases}$$

This means that a player invests either if he is optimistic enough about the state (large $\mu_i$) or optimistic enough that the other player is optimistic enough (large $\lambda_i$).

**Maximization Within.** For $\mu > \frac{2}{3}$, both players are optimistic enough to invest under no information, hence a public signal announcing $\mu$—which is a minimal distribution of dimension $1 \times 1$—achieves the designer’s maximal payoff. For $\mu \leq \frac{2}{3}$, the largest minimal distributions that we need to consider are of dimension $2 \times 2$: every player must have at least one first-order belief above $\frac{2}{3}$ (so that the designer can leverage the second-order beliefs) and at least one below (so that Bayes plausibility is preserved).

In the distribution below, let $\mu''_1 = \mu''_2 = 2/3 + \varepsilon$.

<table>
<thead>
<tr>
<th>$e_\mu$</th>
<th>$(\mu'_2, \lambda'_2)$</th>
<th>$(\mu''_2, \lambda''_2)$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$(\mu'_1, \lambda'_1)$</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>$(\mu''_1, \lambda''_1)$</td>
<td>C</td>
<td>$1 - A - B - C$</td>
</tr>
</tbody>
</table>

From here, we try to achieve the maximal payoff—i.e., investment by both players with probability one—for as many priors $\mu \leq \frac{2}{3}$ as possible. We solve the following system in Appendix D:

$$\begin{cases} 3\mu'_i - 2 + \lambda'_i > 0 \forall i \\ \mu''_i = \frac{2}{3} + \varepsilon \forall i \\ e_\mu \text{ is consistent} \end{cases}$$

and obtain
For all $\mu > 8/15$, $e_{\mu}^{**}$ always induces $(I, I)$ as the only ICR$_2$ profile and gives the designer a payoff of 2.

**Remark.** Under a direct approach based on the Revelation Principle, every player is given an action recommendation instead of the message inducing that action. In the above, for $\mu > 8/15$, the players would therefore always be told to invest, which is completely uninformative. While $(I, I)$ still belongs to ICR$_2$ under no information, so does $(NI, NI)$. This is why a direct approach fails to guarantee uniqueness, while $(I, I)$ is *uniquely* rationalizable in $e_{\mu}^{**}$.

For $\mu \leq 8/15$, the designer can no longer achieve investment by both players. She will therefore focus on maximizing the likelihood of one of the players choosing to invest. She can achieve that by talking privately to one of the players, which implies that she will use minimal distributions of dimension $1 \times 2$. For a given $\mu$, any $1 \times 2$ minimal distribution can be parameterized as:

<table>
<thead>
<tr>
<th>$e_{\mu}$</th>
<th>$(\mu_2', \delta_{\mu_1})$</th>
<th>$(\mu_2'', \delta_{\mu_1})$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$(\mu_1, \lambda_1)$</td>
<td>$1 - p$</td>
<td>$p$</td>
</tr>
</tbody>
</table>

In order to foster investment, the designer needs to maximize Player 1’s second-order beliefs, $\lambda_1 = \text{Prob}(\mu_2 > \frac{2}{3})$. This in turn requires $\mu_2'' > \frac{2}{3}$. Moreover, the more likely $\mu_2''$ is, while Bayes plausibility is satisfied, the larger $\lambda_1$ is. Hence, the designer will set $\mu_2' = 0$ and $\mu_2'' = \frac{2}{3} + \varepsilon$, with arbitrarily small $\varepsilon > 0$. Putting everything together, for $\mu \leq \frac{8}{15}$, the optimal private minimal distribution must be

<table>
<thead>
<tr>
<th>$e_{\mu}^*$</th>
<th>$(0, 0)$</th>
<th>$(\frac{2}{3} + \varepsilon, 0)$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$(\mu, \frac{3\mu}{2 + 3\varepsilon})$</td>
<td>$1 - \frac{3\mu}{2 + 3\varepsilon}$</td>
<td>$\frac{3\mu}{2 + 3\varepsilon}$</td>
</tr>
</tbody>
</table>

Under $e_{\mu}^*$, player 1 chooses I with certainty as long as

$$3\mu_1 - 2 + \lambda_1 = 3\mu - 2 + \frac{3\mu}{2 + 3\varepsilon} > 0 \iff \mu > \frac{4}{9} + \varepsilon',$$

---

10By symmetry, it is without loss to talk only to Player 2.

11We need the $\varepsilon$ because, in this example, $w(e_{\mu}^*)$ is not upper-semicontinuous.
where ε’ = \(\frac{2\varepsilon}{9(1+\varepsilon)}\), and chooses NI otherwise, while player 2 chooses I with probability \(\frac{3\mu}{2+3\varepsilon}\). Hence,

\[ w^*(\mu) = \sup_{\varepsilon} w(e^*_\mu) = I(\mu \geq \frac{4}{9}) + \frac{3}{2}\mu. \]

Hence, maximization within gives the designer an expected payoff of

\[ w^*(\mu) = \begin{cases} 
2 & \text{if } \mu > \frac{8}{15} \\
\frac{1}{2}(\mu \geq \frac{4}{9}) + \frac{3}{2}\mu & \text{otherwise},
\end{cases} \]

which is depicted as the dashed graph in Figure 1.

**Maximization Between.** Concavification completes the solution. For all \(\mu_0 \leq \frac{8}{15}\), the designer puts probability \(1 - \frac{15}{8+15\varepsilon}\mu_0\) on \(e_0^*\) and \(\frac{15}{8+15\varepsilon}\mu_0\) on \(e_{\mu_0}^*\), giving her an expected payoff of \(\frac{30}{8+15\varepsilon}\mu_0\). The optimal information structure that corresponds to this is

| \(\pi(\cdot | \theta = -1)\) | \(s_2'\) | \(s_2''\) |
|---|---|---|
| \(s_1'\) | \(\frac{2-3\mu+3\varepsilon}{(2+3\varepsilon)(1-\mu)}\) | \(\frac{(1-3\varepsilon)\mu}{(4+6\varepsilon)(1-\mu)}\) |
| \(s_1''\) | \(\frac{(1-3\varepsilon)\mu}{(4+6\varepsilon)(1-\mu)}\) | 0 |

| \(\pi(\cdot | \theta = 2)\) | \(s_2'\) | \(s_2''\) |
|---|---|---|
| \(s_1'\) | 0 | \(\frac{1}{2}\) |
| \(s_1''\) | \(\frac{1}{2}\) | 0 |

**Figure 1:** Value of maximization within (dashed) and between (solid) without constraint.

By manipulating beliefs, the designer decreases the lowest prior \(\mu_0\) at which (I, I) can be uniquely rationalized from \(\frac{2}{3}\) to \(\frac{8}{15}\). She achieves her highest possible payoff for all \(\mu_0 \in \left[\frac{8}{15}, \frac{2}{3}\right]\) by using \(2 \times 2\) minimal distributions and informing both players. In the optimal information structure for these priors, each player receives one of two
signals, good or bad. When a player receives the good signal, he believes that the state is high with probability $2/3 + \varepsilon$, and so he invests based on his first-order beliefs. When a player receives the bad signal, he also invests, but because he believes that the other player is likely enough to have received the good signal. In the latter, private information to player $i$ fosters investment by player $j$ via $j$’s second-order beliefs, which is a form of bandwagon effect. Under ICR$_2$, this effect occurs via second-order beliefs only, but as players become more sophisticated, it extends to higher-order beliefs, giving more flexibility to incentivize investment. We conjecture that the threshold prior above which the designer can obtain maximal payoff is decreasing in $k$. Importantly, an optimal information structure under ICR$_k$ is likely to be suboptimal under ICR$_{k-1}$, as the designer puts resources into manipulating $k$-order beliefs (as in the top left cell of $e^*_\mu$ for $k = 2$), which is useless under ICR$_{k-1}$. Notice that none of the above would be possible under public information, since $\lambda_\mu > 0$ if and only if $\mu > 2/3$.

6. Comparison to the Single-Agent Problem

In this section, we study a simple departure from the single-agent case that still captures a strategic interaction. We show how the dimension of the relevant minimal distributions tells us whether a problem can be decomposed into separate simpler steps where optimization is done over fewer dimensions, or must be solved directly in one step optimizing over all dimensions. Additionally, the simple framework presented below can serve as a blueprint for more general problems in which interactions between (groups of) players follow a similar structure. In these games, a first group of players cares only about each other’s actions and the state; a second group cares only about each other’s actions and those of the group above them, but not about the state or any other group’s actions; and so on. These structures can be used to model many interesting interactions such as organizational design within firms, technology adoption, and financial markets.

6.1. The Manager’s Problem

Consider a situation in which a manager is in charge of two employees collaborating on a project: a supervisor (P) and a worker (W). Suppose that the project can be either easy ($\theta = 0$) or hard ($\theta = 1$), distributed according to $\mu_0 := \mu_0(\theta = 1) = 1/6$, which is common knowledge. The supervisor and the worker simultaneously choose an effort level. The supervisor’s choice can be interpreted as deciding whether to monitor the worker ($a_P = 1$) or not monitor him ($a_P = 0$). The worker can choose
to either put forth high effort \((a_W = 1)\) or low effort \((a_W = 0)\). The strategic interaction between the two employees is summarized in Table 3.

<table>
<thead>
<tr>
<th>(\theta = 0)</th>
<th>(a_W = 0)</th>
<th>(a_W = 1)</th>
<th>(\theta = 1)</th>
<th>(a_W = 0)</th>
<th>(a_W = 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1, 1</td>
<td>1, 0</td>
<td></td>
<td>0, 1</td>
<td>0, 0</td>
</tr>
<tr>
<td></td>
<td>0, 0</td>
<td>0, 1</td>
<td></td>
<td>1, 0</td>
<td>1, 1</td>
</tr>
</tbody>
</table>

Table 3: Game between supervisor (row) and worker (column).

On the one hand, the supervisor is only interested in monitoring the worker if the project is hard, regardless of the worker’s action choice. On the other hand, the worker only wants to exert high effort if he is being monitored, regardless of the state. The manager decides on what information to disclose in a way that maximizes the expected value of her objective \(v : \{0, 1\}^2 \times \Theta \rightarrow \mathbb{R}\). The solution concept is \(\Sigma = \text{BNE}\) and the selection rule is max so when there is multiplicity, players are assumed to coordinate on the manager’s preferred equilibrium.

### 6.2. State-Independent Objective

Let us first consider state-independent designers, that is \(v : A \rightarrow \mathbb{R}\). Our representation theorem prescribes maximizing first over minimal belief-hierarchy distributions, and then over distributions thereof. However, this problem can be daunting if we do not narrow down the set of minimal distributions to consider.\(^{12}\) We must rely on the specific structure of the problem to identify the relevant minimal distributions over which to perform the maximization within. Using the structure of the Manager’s Problem, we conclude that:

(i) without loss, we can restrict attention to distributions over first-order beliefs for the supervisor \((\mu_1 \in \Delta\Theta)\) and second-order beliefs for the worker \((\lambda_2 \in \Delta\Delta\Theta)\). This is proven in Propositions 6 and 7 in Appendix E. Therefore, the manager’s maximization can take place over distributions \(\eta\) in \(A := \Delta(\Delta\Theta \times \Delta\Delta\Theta)\).\(^{13}\) We denote \(\eta_1 := \text{marg}_{\mu_1} \eta\) and \(\eta_2 := \text{marg}_{\lambda_2} \eta\).

(ii) by an argument similar to the revelation principle, the optimal distribution will be of dimension \(2 \times 2\) or smaller. That is, at most two different beliefs

---

\(^{12}\)In Proposition 10 in Appendix F, we show that for every minimal distribution \(e\), there exists an information design problem \(\langle v, G \rangle\) such that \(e\) is uniquely optimal. This means that, a priori, no minimal distribution \(e\) can be discarded. This is no longer true once we fix an environment \(\langle v, G \rangle\).

\(^{13}\)In what follows, we refer to \(\eta\) as a belief-hierarchy distribution, although technically we mean a belief-hierarchy distribution with marginal \(\eta\) over \((\mu_1, \lambda_2)\).
per player need to be induced in order to generate all possible equilibrium outcomes.

From (i) and (ii), it is not hard to show that every consistent \( \eta \) of dimension \( 2 \times 2 \) can be generated as a convex combination of two smaller distributions that are in fact minimal. We thus identify two classes of minimal consistent distributions. The first class corresponds to a public signal and consists of distributions of dimension \( 1 \times 1 \): one first-order belief \( \mu_1 \) for the supervisor and one second-order belief \( \lambda_2(\mu_1) = 1 \) for the worker, where the latter satisfies consistency. The second class is generated via a private signal to the supervisor and the distributions in it are of dimension \( 2 \times 1 \). This corresponds to two first-order beliefs, \( \mu'_1 \) and \( \mu''_1 \), and one second-order belief, which by consistency needs to satisfy \( \lambda_2(\mu'_1) = \eta_1(\mu'_1) \).

The manager’s information design problem can be thus decomposed into maximization within

\[
\begin{align*}
\text{maximize within} & \quad w^*(\mu) := \max_{\lambda_2 \in \Delta \Theta} \sum_{\text{supp} \lambda_2} v(a_1^*(\mu_1), a_2^*(\lambda_2)) \lambda_2(\mu_1) \\
\text{subject to} & \quad \sum_{\text{supp} \lambda_2} \mu_1 \lambda_2(\mu_1) = \mu
\end{align*}
\]

(12)

and maximization between

\[
\begin{align*}
\text{maximize between} & \quad V^*(\mu_0) := \max_{\eta_2 \in \Delta \Theta} \sum_{\text{supp} \eta_2} w^*(\mu) \eta_2(\mu) \\
\text{subject to} & \quad \sum_{\text{supp} \eta_2} \mu \eta_2(\mu) = \mu_0.
\end{align*}
\]

In the maximization within, the manager informs the supervisor optimally, thereby choosing the distribution of his first-order beliefs for any state distribution \( \mu \). By consistency, this distribution needs to give \( \mu \) on average and also pins down the second-order beliefs of the worker. In other words, this step is done by optimizing over the minimal consistent distributions of dimension \( 2 \times 1 \) or \( 1 \times 1 \) for each \( \mu \).

In the maximization between, the manager then chooses the optimal randomization over the minimal distributions from the first step. This is equivalent to choosing optimally the distribution over the worker’s second-order beliefs, \( \eta_2 \), which can be also interpreted as a distribution over the \( \mu \)'s of minimal distributions and therefore needs to satisfy Bayes plausibility with respect to the common prior \( \mu_0 \).

To make things easier to illustrate, consider a manager who is interested only in the worker’s action: \( v(a, \theta) = a_W. \)

The worker’s equilibrium action is a function

\[14\text{Maximization within is not a concave envelope because } \lambda_2 \text{ enters the objective function.}
\[15\text{This type of objective function is reasonable when the worker is the main productive unit, as in the three-tier hierarchy model of Tirole (1986).} \]
of his second-order beliefs. Denoting $\tilde{\lambda}_2 := \lambda_2(\{\mu_1 \geq 1\})$, 

$$w^*(\mu) = \begin{cases} 0 & \text{if } \tilde{\lambda}_2 < 1/2 \\ 1 & \text{if } \tilde{\lambda}_2 \geq 1/2. \end{cases}$$

Maximization within proceeds as follows:

- for $\mu \in [0, \frac{1}{4}) \cup [\frac{1}{2}, 1]$, the optimal minimal distribution is of dimension $1 \times 1$ with $\mu_1 = \mu$ and $\lambda_2(\mu_1) = 1$.

- for $\mu \in [\frac{1}{4}, \frac{1}{2})$, the optimal minimal distribution is of dimension $2 \times 1$ with $\mu'_1 = 0$, $\mu''_1 = \frac{1}{2}$, and $\lambda_2(\mu'_1)\mu'_1 + (1 - \lambda_2(\mu'_1))\mu''_1 = \mu$.

For $\mu \geq \frac{1}{2}$ it is optimal to make the posterior public, as that would ensure $\tilde{\lambda}_2 = 1$ and $w^*(\mu) = 1$. When $\mu < \frac{1}{2}$, no public posterior can achieve the same outcome. However, by informing the supervisor privately and sending him either to $\mu'_1 = 0$ or to $\mu''_1 = \frac{1}{2}$, the manager can achieve $\tilde{\lambda}_2 \geq \frac{1}{2}$ and hence $w^*(\mu) = 1$. This would be possible to achieve with a minimal distribution of dimension $2 \times 1$ as long as $\mu \geq \frac{1}{4}$, which ensures consistency can be satisfied. For $\mu_1 < \frac{1}{4}$, it must be that $\tilde{\lambda}_2 < \frac{1}{2}$ in any consistent minimal distribution and hence $w^*(\mu) = 0$. Concavifying the thus constructed $w^*(\mu)$ (dashed red lines in Figure 2), gives us the value that can be achieved by the designer when using both public and private signals optimally (solid red graph).

For the state distribution $\mu_0 = \frac{1}{6}$, the overall optimal distribution is constructed as follows: with probability $\frac{1}{3}$ send both players to a minimal distribution $e^*_\mu=0$ with $\mu = \mu_1 = \lambda_2 = 0$, and with probability $\frac{2}{3}$ send them to a minimal distribution with
\( \mu = \frac{1}{4} \), which involves a private signal to the supervisor that splits his first-order beliefs into \( \mu'_1 = 0 \) and \( \mu''_1 = \frac{1}{2} \), with \( \lambda_2 = \frac{1}{2} \) by consistency. Notice that the Bayes plausibility requirement with respect to \( \mu_0 \) is also satisfied: \( 0 \times \frac{1}{3} + \frac{1}{4} \times \frac{2}{3} = \frac{1}{6} \). The information structure that induces this optimal belief-hierarchy distribution is given by:

\[
\begin{array}{c|cc}
\pi(\cdot|\theta = 0) & s_0 & s_1 \\
\hline
s_0 & 2/5 & 2/5 \\
\hline
s_1 & 0 & 1/5
\end{array}
\quad
\begin{array}{c|cc}
\pi(\cdot|\theta = 1) & s_0 & s_1 \\
\hline
s_0 & 0 & 0 \\
\hline
s_1 & 0 & 1
\end{array}
\]

Note that the same optimal information structure can be computed directly, in “one block”, using the linear program of the BCE approach (Bergemann and Morris (2016), Taneva (2014)). Although linear programs can be solved in polynomial time, it is instructive to derive the solution in a decomposed way, as an optimal public randomization over private communication schemes that only inform the supervisor about the state.

The overall optimal design gives the designer an expected payoff of \( V^*(\mu_0) = \frac{2}{3} \). As benchmark cases, we have also plotted the values for the case of public information \( (V_p = \frac{1}{3}) \) and full information \( (V_f = \frac{1}{6}) \). On the other hand, releasing no information at all will result in a payoff of 0 with certainty.

6.3. State-Dependent Objective

Above we illustrated how the representation theorem can be used to divide the optimization procedure into steps reminiscent of dynamic programming, which simplifies the problem. From the description of the Manager’s Problem, intuition suggests that sending a signal to the supervisor and a garbling of that to the worker should be sufficient for optimal disclosure. Nevertheless, the sufficiency of such a procedure is not immediately obvious. To see this, we first state a result showing that minimal consistent distributions are dense in the set of all consistent distributions (despite being small in a measure-theoretic sense, by Proposition 9 in Appendix F):

**Proposition 2.** Let \( C_\mu = \{\tau \in C : \text{marg}_0 p_\tau = \mu\} \). For \( n > 1 \), \( C^M \cap C_\mu \) and \( C_\mu \setminus E_\mu \) are dense in \( C_\mu \) for all \( \mu \).

A direct consequence of the denseness result is that maximization within, alone, gets us arbitrarily close to the value of maximization between, as any non-minimal distribution can be approximated arbitrarily well by some minimal one. This points to an important difference between extremal decomposition in games as opposed to
in one-agent problems. In the latter, the set of first-order beliefs is not dense in the set of all Bayes plausible belief distributions, so there is typically a gap between maximization within and between. To obtain such a gap in a game, the relevant minimal distributions for maximization within must be smaller dimensional objects than the final output, while still sufficient to achieve global optimality via maximization between. Whether this is the case depends on the specifics of the environment. For example, for state-independent managers, we have seen that working with the relevant minimal distributions caused a gap between the values of maximization within and between (see Figure 2). However, this is not the case when the designer’s objective depends on both $a$ and $\theta$. Now, the manager needs to consider also minimal distributions of dimension $2 \times 2$, since the first-order beliefs of the worker may also play a role (part (i) in Section 6.2 no longer holds). For example, when the worker has a second-order belief $\lambda_2 = \frac{1}{2}$, which makes him indifferent between the two actions, his first order-beliefs can be used to achieve coordination with the state.

7. Conclusion

This paper contributes to the foundations of information design. Our representation theorem deconstructs the problem into maximization within and concavification, yielding the expression of Kamenica and Gentzkow (2011) in games. These results provide a theoretical solution to the information design problem. Our method enables comparative statics with respect to the prior, and it is flexible with respect to the solution concept and to the selection criterion resolving the multiplicity of outcomes.

Our two applications emphasize different aspects of our results. In the first, revelation arguments fail. Thus, working directly with beliefs is indispensable, and our results give instructions on how to compute the optimal information structure. In the second, our results tie the simplifying property of extremal decomposition to the dimension of the relevant minimal components.\textsuperscript{16}

\textsuperscript{16}In a three-agent Manager’s Problem that would extend our application in the obvious way, the manager could talk to one agent while keeping the other two uninformed, talk to two agents while keeping the last one uninformed, or talk to all three simultaneously.
Appendix

A. Proof of Proposition 1

Proof. Let $\tau$ be induced by some $(S, \pi)$, so that

$$\tau(t) = \sum_{\theta} \pi \left( (h^\mu)^{-1}(t) \middle| \theta \right) \mu_0(\theta)$$  \hspace{1cm} (14)

for all $t \in \text{supp} \tau$. Define $p \in \Delta(\Theta \times \hat{T})$ as

$$p(\theta, t) = \pi \left( (h^\mu)^{-1}(t) \middle| \theta \right) \mu_0(\theta)$$  \hspace{1cm} (15)

for all $\theta$ and $t \in \text{supp} \tau$. It is immediate from (14) and (15) that $\text{marg}_T p = \tau$ and so $\text{marg}_T p = \tau_i$ for all $i$. When any player $i$ forms his beliefs $\mu_i : T_i \to \Delta(\Theta \times T_{-i})$ under information structure $(\text{supp} \tau, \pi)$, he computes the conditional of $p$ given $t_i$. That is, player $i$’s belief hierarchies are derived from $p(\cdot \mid t_i)$ for all $i$ and, thus,

$$p(\theta, t) = \beta^*_i(\theta, t_{-i} \mid t_i) \text{marg}_{T_i} p(t_i)$$

for all $i, \theta$, and $t \in \text{supp} \tau$. We conclude that $\tau \in C$. Finally,

$$\sum_{t_i \in \text{supp} \tau_i} \beta^*_i(\theta \mid t_i) \tau_i(t_i) := \text{marg}_\Theta p(\theta) = \sum_t \pi \left( (h^\mu)^{-1}(t) \middle| \theta \right) \mu_0(\theta) = \mu_0(\theta)$$

for all $\theta$, which proves Bayes plausibility.

Suppose now that $\tau \in C$ and satisfies Bayes plausibility. Let us show that these conditions are sufficient for $\tau$ to be induced by some $(S, \pi)$. Define information structure $(\text{supp} \tau, \pi_\tau)$ where

$$\pi_\tau(t \mid \cdot) : \theta \mapsto \frac{1}{\mu_0(\theta)} \beta^*_i(\theta, t_{-i} \mid t_i) \tau_i(t_i)$$  \hspace{1cm} (16)

for all $t \in \text{supp} \tau$, which is defined independently of the choice of $i$ because $\tau \in C$.

First, let us verify that $\pi_\tau$ is a valid information structure. Bayes plausibility says

$$\sum_{t_i \in \text{supp} \tau_i} \beta^*_i(\theta \mid t_i) \tau_i(t_i) = \mu_0(\theta),$$

which guarantees that

$$\pi_\tau(t \mid \theta) = \frac{1}{\mu_0(\theta)} \sum_{t_i \in \text{supp} \tau_i} \beta^*_i(\theta \mid t_i) \tau_i(t_i) = 1,$$

and in turn that $\pi(\cdot \mid \theta)$ is a probability distribution for every $\theta$. By construction, this information structure is such that, when any player $j$ receives $t_j$, his beliefs are
\( \mu_j(\cdot | t_j) = \beta^*_j(\cdot | t_j) \), also because \( \tau \in \mathcal{C} \). To prove that \( \pi_\tau \) generates \( \tau \), we need to check that
\[
\tau(t) = \sum_\theta \pi(t|\theta)\mu_0(\theta)
\]
for all \( t \in \text{supp} \tau \). By (16), the rhs of (17) is equal to \( \beta^*_i(t_{-i}|t_i)\tau_i(t_i) \), which equals \( \tau(\hat{T}) \) because \( \tau \in \mathcal{C} \) (in particular, because \( \text{marg}_{\Theta} p = \tau \)).

\[ \Box \]

B. Solution Concepts

B.1. Assumptions

For any \( \tau \in \mathcal{C} \), the pair \( G = (G, p_\tau) \) describes a Bayesian game in which players behave according to solution concept \( \Sigma^*_*(G) \subseteq \{ \sigma : \text{supp} \tau \rightarrow \Delta A \} \), which results in an outcome correspondence
\[
O_{\Sigma^*}(G) := \left\{ \gamma \in \Delta(A \times \Theta) : \exists \sigma \in \Sigma^*(G) \text{ s.t. } \gamma(a, \theta) = \sum_t \sigma(a|t)p_\tau(t, \theta) \forall (a, \theta) \right\}.
\]

Again, for a fixed base game, we just write \( \Sigma^*(\tau) \) and \( O_{\Sigma^*}(\tau) \).

**Assumption 1.** Given \( \Sigma \), there is a solution concept \( \Sigma^* \) such that
\[
O_{\Sigma^*}(\tau) = \bigcup_{(S, \pi) \text{ induces } \tau} O_{\Sigma}(S, \pi), \quad \text{and}
\]
\( \forall \tau, \tau', \text{ if } \sigma \in \Sigma^*(\tau) \text{ then } \exists \sigma' \in \Sigma^*(\tau') \text{ s.t. } \sigma(t) = \sigma'(t), \forall t \in \text{supp } \tau \cap \text{supp } \tau' \).

Solution concept \( \Sigma^* \) is relevant only if it captures all outcomes from \( \Sigma \), hence the first requirement. The second requirement is called **invariance**: it says that play at a profile of belief hierarchies \( t \) under \( \Sigma^* \) does not depend on the ambient distribution from which \( t \) is drawn. This property is important because:

**Proposition 3.** If \( \Sigma^* \) is invariant, then \( O_{\Sigma^*} \) is linear.\(^{17}\)

It is not true for all \( \Sigma \) that \( O_{\Sigma}(S, \pi) = O_{\Sigma}(\tau) \) whenever \( (S, \pi) \) induces \( \tau \). Indeed, the same solution concept may not generate the same outcome distributions whether it is applied to \( (S, \pi) \) or to its induced \( \tau \). In Bayes Nash equilibrium, for example, the existence of many messages \( s \) inducing the same profile \( t \) of hierarchies can create opportunities for correlation among those \( s \) and, hence, for play, that cannot

\(^{17}\)For all \( \tau', \tau'' \in \mathcal{C} \) and \( \alpha \in [0, 1] \), \( \alpha O_{\Sigma^*}(\tau') + (1 - \alpha)O_{\Sigma^*}(\tau'') = O_{\Sigma^*}(\alpha \tau' + (1 - \alpha)\tau'') \), where \( \alpha O_{\Sigma^*}(\tau) = \{ \alpha \gamma : \gamma \in O_{\Sigma^*}(\tau) \} \).
be replicated by $t$ alone. That said, for various solution concepts $\Sigma$, epistemic game theory has identified invariant $\Sigma^*$, sometimes $\Sigma^* := \Sigma$, such that $O_{\Sigma^*}(\tau) = O_{\Sigma}(S, \pi)$ whenever $(S, \pi)$ induces $\tau$. We borrow from that literature to define the appropriate $\Sigma^*$ satisfying Assumption 1 for $\Sigma := \text{BNE}$. In Section 5, we use interim correlated rationalizability, which is invariant and satisfies (i) with $\Sigma^* = \Sigma$.

### B.2. Illustration

For applications in Bayes Nash information design ($\Sigma := \text{BNE}$), it is useful to know which solution concept $\Sigma^*$ satisfies $O_{\Sigma}(S, \pi) = O_{\Sigma^*}(\tau)$ whenever $(S, \pi)$ induces $\tau$, and whether $\Sigma^*$ is invariant. This is done in Proposition 4.

**Definition 1.** Given $\tau \in \mathcal{C}$, the set of belief-preserving Bayes correlated equilibria in $\langle G, p, \tau \rangle$, denoted $\text{BCE}_B(\tau)$, consists of all $\sigma : \text{supp}\, \tau \times \Theta \to \Delta A$ such that for all $i$,

$$\sum p_{ij}(t, \theta)\sigma(a_i, a_{-i}|t_i, t_{-i}, \theta)(u_i(a_i, a_{-i}, \theta) - u_i(a_i', a_{-i}, \theta)) \geq 0 \quad (19)$$

for all $a_i, a_i'$ and $t_i \in \text{supp}\, \tau_i$, and for all $i$,

$$\sigma_i(a_i|t_i, t_{-i}, \theta) := \sum_{a_{-i} \in A_{-i}} \sigma(a_i, a_{-i}|t_i, t_{-i}, \theta) \quad (20)$$

is independent of $t_{-i}$ and $\theta$.  

In a correlated equilibrium, player $i$ of type $t_i$ receives an action recommendation $a_i$ that is incentive-compatible by (19). This condition alone defines a Bayes correlated equilibrium (see Bergemann and Morris (2016) and our conclusion). In addition, (20) requires that $i$’s action recommendation reveal no more information to $i$ about the other players’ hierarchies and the state of the world than what is already contained in his hierarchy. Thus, after receiving the action recommendation, each player’s belief hierarchy remains unaltered. Forges (2006) introduced a condition equivalent to (20), while Liu (2015) introduced the belief-preserving Bayes correlated equilibrium.

**Proposition 4.** $\text{BCE}_B$ is invariant and for all $\tau \in \mathcal{C}$,

$$O_{\text{BCE}_B}(\tau) = \bigcup_{(S, \pi) \text{ induces } \tau} O_{\text{BNE}}(S, \pi).$$

---

18Note that here, we have extended the definition of the solution concept $\sigma$ to allow for dependence on the state $\theta$ in addition to the type profile. This allows us to capture correlation between actions that could have only resulted from redundant types, which do not exist on the universal type space. We accordingly adapt the definition of invariance in the obvious way, i.e. the equivalence now must hold, in addition, for every $\theta \in \Theta$. 
This proposition\textsuperscript{19} demonstrates that BCE\textsubscript{B} is invariant and that the set of BCE\textsubscript{B} outcomes from $\tau$ is the union of all BNE outcomes for all information structures that induce $\tau$. Then, as Bergemann and Morris (2016, p.507) put it, the belief-preserving BCE captures the implications of common knowledge of rationality and that players know exactly the information contained in $\tau$ (and no more) given the common prior assumption.

C. Proof of Theorem 1

Lemma 1. $\mathcal{C}$ is convex.

Proof. Take $\alpha \in [0,1]$ and $\tau', \tau'' \in \mathcal{C}$. By definition of $\mathcal{C}$, there are $p_{\tau'}$ and $p_{\tau''}$ such that $\text{marg}_T p_{\tau'} = \tau'$ and $\text{marg}_T p_{\tau''} = \tau'$ and

$$ p_{\tau'}(\theta, t) = \beta^*_i(\theta, t_{-i}|t_i)\tau'_i(t_i), \quad p_{\tau''}(\theta, t) = \beta^*_i(\theta, t_{-i}|t_i)\tau''_i(t_i), \quad (21) $$

for all $\theta$, $i$ and $t$. Define $\tau := \alpha\tau' + (1-\alpha)\tau''$ and note that $\tau_i = \alpha\tau'_i + (1-\alpha)\tau''_i$, by the linearity of Lebesgue integral. Define

$$ p_{\tau}(\theta, t) := \beta^*_i(\theta, t_{-i}|t_i)\tau_{\alpha,i}(t_i) $$

for all $i, \theta$, and $t \in \text{supp} \tau$. Notice that $p_{\tau}$ is well-defined, because of (21). Thus,

$$ \text{marg}_T p_{\tau} = \alpha \text{marg}_T p_{\tau'} + (1-\alpha) \text{marg}_T p_{\tau''} = \alpha \tau' + (1-\alpha) \tau'' = \tau $$

and we conclude that $\tau \in \mathcal{C}$. \hfill \square

Although $\mathcal{C}$ is convex, it is not closed because we can build sequences in $\mathcal{C}$ with growing supports, only converging to a belief-hierarchy distribution with an infinite support. Still, the next lemma proves that minimal (consistent) distributions are the extreme points of the set of consistent distributions.

Lemma 2. $\mathcal{E} = \mathcal{C}^n$

Proof. An extreme point of $\mathcal{C}$ is a $\tau \in \mathcal{C}$ such that $\tau = \alpha \tau' + (1-\alpha) \tau''$ if and only if $\tau' = \tau'' = \tau$. We first show that if $\tau \in \mathcal{C}^n$, then $\tau$ is an extreme point of $\mathcal{C}$. Suppose not. That is, fixing $\alpha \in (0,1)$, let $\tau = \alpha \tau' + (1-\alpha) \tau''$ for some $\tau' \neq \tau''$ and define $\tilde{\lambda} := \max \{ \lambda \geq 0 : \tau + \lambda (\tau'' - \tau') \in \mathcal{C} \}$. Then, it must be that $\tilde{\tau} := \tau + \tilde{\lambda}(\tau'' - \tau') \neq \tau$. We want to show that $\text{supp} \tilde{\tau} \subseteq \text{supp} \tau$. To see this, let $\tilde{i} \in \text{supp} \tilde{\tau}$ and suppose $\tilde{i} \notin \text{supp} \tau$. Then, by definition, $\tilde{\tau}(\tilde{i}) = -\lambda \tau''(\tilde{i}) \leq 0$, which

\textsuperscript{19}The proof is available to the reader upon request.
is impossible. Moreover, there is a \( t \in \text{supp} \tau \), such that \( t \notin \text{supp} \tilde{\tau} \). If not, it would imply that for all \( t \in \text{supp} \tau \), \( \tilde{\tau}(t) > 0 \). When this is the case, however, we can find \( \lambda' > \lambda \), s.t. \( \tau + \lambda' (\tau - \tau'') \in \mathcal{C} \), a contradiction on the fact that \( \lambda \) is in fact the \text{max}. We conclude that \( \text{supp} \tilde{\tau} \not\subseteq \text{supp} \tau \) and thus \( \tau \notin \mathcal{C}^M \). Conversely, suppose \( \tau \) is not minimal, i.e., there is a \( \tau' \in \mathcal{C} \) such that \( \text{supp} \tau' \not\subseteq \text{supp} \tau \). Define \( \tau'' \in \Delta T \) as \( \tau''(\cdot) := \tau(\cdot | \text{supp} \tau \setminus \text{supp} \tau') \), the conditional distribution of \( \tau \) given the subset \( \text{supp} \tau \setminus \text{supp} \tau' \). Clearly

\[
\tau = \alpha \tau' + (1 - \alpha) \tau''
\]

(22)

where \( \alpha = \tau(\text{supp} \tau') \in (0, 1) \). Since \( \text{supp} \tau' \) is belief-closed, so is \( \text{supp} \tau \setminus \text{supp} \tau' \). Since \( \tau'' \) is derived from a consistent \( \tau \) and is supported on a belief-closed subspace, \( \tau'' \) is consistent. Given that \( \tau'' \neq \tau' \), (22) implies that \( \tau \) is not an extreme point. \( \square \)

**Proposition 5.** For any \( \tau \in \mathcal{C} \), there exist unique \( \{e_i\}_{i=1}^n \subseteq \mathcal{C}^M \) and weakly positive numbers \( \{\alpha_i\}_{i=1}^n \) such that \( \sum_{i=1}^n \alpha_i = 1 \) and \( \tau = \sum_{i=1}^n \alpha_i e_i \).

**Proof.** Take any \( \tau \in \mathcal{C} \). Either \( \tau \) is minimal, in which case we are done, or it is not, in which case there is \( \tau' \in \mathcal{C} \) such that \( \text{supp} \tau' \not\subseteq \text{supp} \tau \). Similarly, either \( \tau' \) is minimal, in which case we conclude that there exists a minimal \( e_1 := \tau' \) with support included in \( \text{supp} \tau \), or there is \( \tau'' \in \mathcal{C} \) such that \( \text{supp} \tau'' \not\subseteq \text{supp} \tau' \). Given that \( \tau \) has finite support, this procedure eventually delivers a minimal consistent belief-hierarchy distribution \( e_1 \). Since \( \tau \) and \( e_1 \) are both consistent and hence, their supports belief-closed, \( \text{supp} (\tau \setminus e_1) \) must be belief-closed. To see why, note that for any \( t \in \text{supp}(\tau \setminus e_1) \), if there were \( i, \hat{i} \in \text{supp} e_1 \) and \( \theta \in \Theta \) such that \( p_r(\theta, \hat{i}, t_i) > 0 \), then this would imply \( p_r(\theta, i, t_i) > 0 \) and, thus, \( p_r(\theta, t_i, \hat{i}_{-ij}) > 0 \) (where \( \hat{i}_{-ij} \) is the belief hierarchies of players other than \( i \) and \( j \)). As a result, player \( j \) would believe at \( \hat{i}_j \) (a hierarchy that \( j \) can have in \( e_1 \) that \( i \) believes that players’ types could be outside \( \text{supp} e_1 \) (because \( p_r(\theta, t_i) > 0 \)). Then, it would violate the fact that \( \text{supp} e_1 \) is belief-closed, a contradiction. Given that \( \text{supp} (\tau \setminus e_1) \) is a belief-closed subset of \( \text{supp} \tau \) and \( \tau \) is consistent, \( \tau \setminus e_1 \) is itself consistent under

\[
p_{r\setminus e_1}(\theta, t) := \frac{p_r(\theta, t)}{\tau(\text{supp}(\tau \setminus e_1))}
\]

for all \( \theta \) and \( t \in \text{supp}(\tau \setminus e_1) \). This follows immediately from the conditions that \( p_r(\theta, t) = \beta_r(\theta, t, t_i) \tau_i(t_i) \) for all \( \theta, t \) and \( i \), \( \text{marg}_T p_r = \tau \), and the definition of belief-closedness. Therefore, we can reiterate the procedure from the beginning and apply it to \( \tau \setminus e_1 \). After \( \ell - 1 \) steps, we obtain the consistent belief-hierarchy distributions \( \tau \setminus \{e_1, \ldots, e_{\ell-1}\} \). Since \( \tau \) has finite support, there must be \( \ell \) large enough such that \( \tau \setminus \{e_1, \ldots, e_{\ell-1}\} \) is minimal; when it happens, denote \( e_\ell := \tau \setminus \{e_1, \ldots, e_{\ell-1}\} \). We
conclude that
\[ \tau = \sum_{i=1}^{\ell} \tau(\text{supp } e_i) e_i \]
where \( \tau(\text{supp } e_i) \geq 0 \) and \( \sum_{i=1}^{\ell} \tau(\text{supp } e_i) = \tau(\bigcup_{i=1}^{\ell} e_i) = \tau(\text{supp } \tau) = 1. \]

Now, we prove linearity of \( w \). The point is to show that the set of outcomes of a mixture of subspaces of the universal type space can be written as a similar mixture of the sets of outcomes of these respective subspaces.

**Lemma 3.** The function \( w \) is linear over \( C^M \).

**Proof.** Let \( \tau', \tau'' \in C^M \) and \( \alpha \in [0, 1] \). Define \( \tau = \alpha \tau' + (1 - \alpha) \tau'' \). Proposition 3 shows linearity of \( O_{\Sigma^*} \), so we have

\[
w(\tau) = \sum_{\theta, a} g(O_{\Sigma^*}(\tau))|\theta, a|v(a, \theta) = \sum_{\theta, a} f\left(\alpha O_{\Sigma^*}(\tau') + (1 - \alpha) O_{\Sigma^*}(\tau'')\right)|\theta, a|v(a, \theta)
\]

Since \( g \) is linear, this becomes

\[
\alpha \sum_{\theta, a} f(O_{\Sigma^*}(\tau'))|\theta, a|v(a, \theta) + (1 - \alpha) \sum_{\theta, a} f(O_{\Sigma^*}(\tau''))|\theta, a|v(a, \theta) = \alpha w(\tau') + (1 - \alpha) w(\tau''),
\]

which completes the proof. \( \square \)

**Proof of Theorem 1.** Fix a prior \( \mu_0 \in \Delta(\Theta) \) and take any information structure \((S, \pi)\). From Proposition 1, it follows that \((S, \pi)\) induces a consistent belief-hierarchy distribution \( \tau \in \mathcal{C} \) such that \( \text{marg}_\Theta p_\tau = \mu_0 \). By definition of \( \Sigma^* \) and \( w \), we have \( V(S, \pi) = w(\tau) \) and, thus, \( \sup_{(S, \pi)} V(S, \pi) \leq \sup\{w(\tau) | \tau \in \mathcal{C} \text{ and } \text{marg}_\Theta p_\tau = \mu_0 \} \).

Now, take \( \tau \in \mathcal{C} \) such that \( \text{marg}_\Theta p_\tau = \mu_0 \). By Proposition 1, we know that there exists an information structure \((S, \pi)\) that induces \( \tau \) and such that \( V(S, \pi) = w(\tau) \). Therefore, \( \sup_{(S, \pi)} V(S, \pi) \geq \sup\{w(\tau) | \tau \in \mathcal{C} \text{ and } \text{marg}_\Theta p_\tau = \mu_0 \} \). We conclude that

\[
\sup_{(S, \pi)} V(S, \pi) = \sup_{\tau \in \mathcal{C} \text{ and } \text{marg}_\Theta p_\tau = \mu_0} w(\tau).
\]

By Proposition 5, there exists a unique \( \lambda \in \Delta^f(C^M) \) such that \( \tau = \sum_{e \in \text{supp } \lambda} \lambda(e) e \).

Since \( p \) and \( \text{marg} \) are linear,

\[
\text{marg}_\Theta p_\tau = \text{marg}_\Theta p \sum_{e \in \text{supp } \lambda} \lambda(e) e = \sum_{e \in \text{supp } \lambda} \lambda(e) \text{marg}_\Theta p_e.
\]
Then, by Lemma 3 and (23), we have
\[
\sup_{(S, \pi)} V(S, \pi) = \sup_{\lambda \in \Delta(C^M)} \sum_e w(e) \lambda(e) \quad \text{subject to } \sum_e \text{marg}_e p_e \lambda(e) = \mu_0, \tag{24}
\]
which concludes the proof. \(\square\)

D. Investment Game

Consider a 2 \times 2 minimal distribution of the form presented on p.12. To leverage second-order beliefs, we need to choose \(\mu'' = \frac{2}{3} + \varepsilon\). Moreover, \(1 - A - B - C = 0\) because each player \(i\) already invests at \((\mu''_i, \lambda''_i)\) based on his first-order beliefs alone. Additionally, symmetry is without loss due to the symmetry of the game and the objective. Hence, the relevant minimal distributions must be of the form:

<table>
<thead>
<tr>
<th>(e^*_\mu)</th>
<th>((\mu'_2, \lambda'_2))</th>
<th>((\mu''_2, \lambda''_2))</th>
</tr>
</thead>
<tbody>
<tr>
<td>((\mu'_1, \lambda'_1))</td>
<td>(A)</td>
<td>(\frac{1-A}{2})</td>
</tr>
<tr>
<td>((\mu''_1, \lambda''_1))</td>
<td>(\frac{1-A}{2})</td>
<td>0</td>
</tr>
</tbody>
</table>

where \(A \in [0, 1]\). Next, we characterize consistency. The Bayes plausibility (BP) condition requires that
\[
\frac{1 + A}{2} \cdot \mu' + \frac{1 - A}{2} \cdot \left(\frac{2}{3} + \varepsilon\right) = \mu. \tag{25}
\]

Use first-order beliefs to designate the hierarchies (call this a player’s type) and parameterize second-order beliefs as
\[
\lambda_i(\theta = 2, \mu' | \mu') = \mu' - x \quad \lambda_i(\theta = 2, \mu'' | \mu'') = 2/3 + \varepsilon \\
\lambda_i(\theta = -1, \mu' | \mu') = 1 - \mu' - y \quad \lambda_i(\theta = -1, \mu'' | \mu'') = 1/3 - \varepsilon \\
\lambda_i(\theta = 2, \mu'' | \mu') = x \quad \lambda_i(\theta = 2, \mu'' | \mu'') = 0 \\
\lambda_i(\theta = -1, \mu'' | \mu') = y \quad \lambda_i(\theta = -1, \mu'' | \mu'') = 0
\]
for a player of type \(\mu'\) and \(\mu'' = 2/3 + \varepsilon\), respectively. Consistency requires that
\[
\lambda_1(\theta, t_2 | t_1) \tau(t_1) = \lambda_2(\theta, t_1 | t_2) \tau(t_2)
\]
for all \((\theta, t_1, t_2)\). This gives \(x = \left(\frac{2}{3} + \varepsilon\right) \cdot \frac{1-A}{1+A}\) and \(y = \left(\frac{1}{3} - \varepsilon\right) \cdot \frac{1-A}{1+A}\). It remains to make sure that all second-order beliefs are in \([0, 1]\). This requires \(\mu' \geq x\) and \(y \leq 1 - \mu'\), pinning down \(\mu'\):
\[
\mu' = \left(\frac{2}{3} + \varepsilon\right) \cdot \frac{1 - A}{1 + A}. \tag{26}
\]
Substituting this into (25), we obtain \(A = 1 - \frac{3\mu}{2+3\varepsilon}\) and \(\mu' = \frac{(2+3\varepsilon)\mu}{4-3\mu+6\varepsilon}\). Hence,
is the minimal distribution that will ensure joint investment for the smallest prior. To compute that smallest prior, write down the condition that ensures investment for each type. When a player is of type $2/3 + \varepsilon$, investment is guaranteed. When a player’s type is type $\mu'$, he invests if:

$$3\mu' + (x + y) - 2 > 0$$

which implies

$$\frac{1 - A}{1 + A} > 2 - 3\mu'.$$  \hspace{1cm} (28)

By (26) and (28), we get $\mu > \frac{8 + 12\varepsilon}{15 + 9\varepsilon} \approx \frac{8}{15}$. Therefore, for all $\mu > 8/15$, $e^*_\mu$ ensures both players invest with probability one.

### E. Manager’s Problem

**Proposition 6.** A belief-hierarchy distribution $\eta \in \mathcal{A}$ is consistent if and only if $\eta(\mu_1, \lambda_2) = \eta_2(\lambda_2)\lambda_2(\mu_1)$ for all $(\mu_1, \lambda_2) \in \text{supp}\eta$.

**Proof.** ("only if") Let $\eta$ be consistent. By (6), there is $p_\eta \in \Delta(\Theta \times \Delta\Theta \times \Delta\Delta\Theta)$ such that

$$\text{marg}_{(\mu_1, \lambda_2)} p_\eta(\mu_1, \lambda_2, \theta) = \eta(\mu_1, \lambda_2)$$

for all $(\mu_1, \lambda_2) \in \text{supp}\eta$. By consistency and definition of $\lambda_2$,

$$\lambda_2(\mu_1) = \sum_\theta p_\eta(\theta, \mu_1, \lambda_2) \eta_1(\mu_1)$$

and, therefore,

$$\eta(\mu_1, \lambda_2) = \sum_\theta p_\eta(\theta, \mu_1, \lambda_2) = \eta_2(\lambda_2)\lambda_2(\mu_1)$$

for all $\mu_1 \in \text{supp}(\eta_1)$ and $\lambda_2 \in \text{supp}(\eta_2)$, where the first equality follows by (29) and the second by the definition of $\lambda_2$.

("if") Take any $\eta \in \mathcal{A}$ and define $p_\eta$ as

$$p_\eta(\mu_1, \lambda_2, \theta) := \mu_0(\theta) \frac{\eta_1(\mu_1) \mu_1(\theta) \eta_2(\lambda_2)\lambda_2(\mu_1)}{\mu_0(\theta)} = \mu_1(\theta)\eta_2(\lambda_2)\lambda_2(\mu_1).$$

Therefore, $\text{marg}_{(\mu_1, \lambda_2)} p_\eta(\mu_1, \lambda_2, \theta) = \eta(\mu_1, \lambda_2)$ by the condition of the proposition. Furthermore, it is easy to check that $p_\eta(\theta|\mu_1) = \mu_1(\theta)$ and $p_\eta(\mu_1|\lambda_2) = \lambda_2(\mu_1)$, that
Definition 2. Let $p_\eta$ be defined as in (30). A distribution $\tau \in C$ induces $\eta \in A$ if for all $(\mu_1, \lambda_2, \theta)$

$$p_\eta(\mu_1, \lambda_2, \theta) = \sum_{t_1; \beta_1^*(\theta|t_1) = \mu_1(\theta)} \sum_{t_2; \beta_2^*(\tau|t_1, \theta) = \lambda_2(\mu_1)} p_\tau(t_1, t_2, \theta).$$

Definition 3. For any $\eta \in A$, $\text{BNE}(\eta)$ consists of all $\sigma = (\sigma_1(\cdot|\mu_1), \sigma_2(\cdot|\lambda_2))$ such that

$$\text{supp } \sigma_1(\cdot|\mu_1) \subseteq \text{argmax}_{a_1} \sum_{\theta} u_1(a_1, \theta) \mu_1(\theta)$$

for all $\mu_1 \in \text{supp } \eta_1$, and

$$\text{supp } \sigma_2(\cdot|\lambda_2) \subseteq \text{argmax}_{a_2|\mu_1} \sum_{a_1 \cdot \mu_1} u_2(\sigma_1(a_1|\mu_1), a_2) \lambda_2(\mu_1)$$

for all $\mu_2 \in \text{supp } \eta_2$.

We show next that, as far as distributions over equilibrium action profiles are concerned, we can work with distributions in $A$ only. Define the set of action distributions under solution concept $\Sigma$ to be

$$O^A_\Sigma(\tau) = \{ \gamma_A \in \Delta(\mathcal{A}) : \exists \gamma \in O_\Sigma(\tau) \text{ s.t. marg}_A \gamma = \gamma_A \}.$$

Recall that, from Proposition 4, $O^A_{\text{BCE}_B}(\tau)$ captures all BNE distributions (over action profiles in $\langle G, (S, \pi) \rangle$) of all information structures.

Proposition 7. If $\tau$ induces $\eta$, then $O^A_{\text{BCE}_B}(\tau) = O^A_{\text{BNE}}(\eta)$.

Proof. In the game between P and W, $\text{BCE}_B(\tau)$ requires for any $\tau$ that for all $t_1 \in T_1, a_1, a_1' \in A_1$,

$$\sum_{a_2, t_2, \theta} p_\tau(t, \theta) \sigma(a_1, a_2|t_1, t_2, \theta)(u_1(a_1, \theta) - u_1(a_1', \theta))$$

$$= \sigma_1(a_1|t_1) \sum_{\theta} p_\tau(t_1, \theta)(u_1(a_1, \theta) - u_1(a_1', \theta)) \geq 0$$

where we have used that $\sum_{a_2} \sigma(a_1, a_2|t_1, t_2, \theta) = \sigma_1(a_1|t_1)$ since $\sigma$ is belief-preserving. Dividing both sides by $\sigma_1(a_1|t_1)\tau(t_1)$ and substituting in $\beta_1^*(\theta|t_1) = p_\tau(t_1, \theta)/\tau(t_1)$, we obtain

$$\sum_{\theta} \beta_1^*(\theta|t_1)(u_1(a_1, \theta) - u_1(a_1', \theta)) \geq 0$$
for all \( t_1 \). Since for all \( t_1 \in T_1 \), \( \text{marg} \beta_1^* (\cdot | t_1) = \mu_1 \) for some \( \mu_1 \in \Delta \Theta \), we can write

\[
\text{supp} \, \sigma(\cdot | \mu_1) \subseteq \arg\max_{\mu_1} \sum_{\theta} u_1(a_1, \theta) \mu_1(\theta).
\]

This conclusion also implies that \( \sigma(a_1 | a_2, t_1, t_2, \theta) = \sigma_1(t_1 | t_1) \) for all \((a, t) \in A \times T\). Therefore, \( \sigma(a_1, a_2 | t_1, t_2, \theta) = \sigma_1(t_1 | t_1) \sigma_2(a_2 | t_1, t_2, \theta) \). Summing across all \( a_1 \in A_1 \) we get:

\[
\sum_{a_1} \sigma(a_1, a_2 | t_1, t_2, \theta) = \sigma(a_2 | t_1, t_2, \theta) = \sigma_2(a_2 | t_2)
\]

where the last equality follows from the belief-preserving property of \( \sigma \). Given \( \sigma(a_1, a_2 | t_1, t_2, \theta) = \sigma_1(t_1 | t_1) \sigma_2(a_2 | t_2), \text{BCE}_B(\tau) \) requires that for all \( t_2 \in T_2, a_2, a_2' \in A_2, \)

\[
\sigma_2(a_2 | t_2) \sum_{a_1} p_r(t_1, t_2) \sigma_1(a_1 | t_1) (u_2(a_1, a_2) - u_2(a_1, a_2')) \geq 0.
\]

(31)

Since player 1’s strategy is a function of \( \mu_1, \sigma_1(a_1 | \mu_1) ), 2 \) formulates beliefs

\[
\beta_1^*(\mu_1 | t_2) := \beta_2^* \{ t_3 : \text{marg} \beta_1^* (\cdot | t_1) = \mu_1 \} | t_2) = p_r \{ t_1 : \text{marg} \beta_1^* (\cdot | t_1) = \mu_1 \} | t_2) \mathbb{1}(t_2)
\]

Dividing (31) by \( \sigma_2(a_2 | t_2) \mathbb{1}(t_2) \) and substituting in \( \sigma_1(a_1 | \mu_1) \) and \( \beta_2^*(\mu_1 | t_2) \) give

\[
\sum_{a_1} \beta_2^*(\mu_1 | t_2) \sigma_1(a_1 | \mu_1) (u_2(a_1, a_2) - u_2(a_1, a_2')) \geq 0
\]

for all \( t_2 \in T_2, a_2, a_2' \in A_2 \). For all \( t_2 \in T_2 \), there is \( \lambda_2 \in \Delta \Delta \Theta \) such that \( \beta_2^* (\cdot | t_2) = \lambda_2 \), and so we can write

\[
\text{supp} \, \sigma_2(\cdot | \lambda_2) \subseteq \arg\max_{\lambda_2} \sum_{a_1} u_2(\sigma_1(a_1 | \mu_1), a_2) \lambda_2(\mu_1)
\]

for all \( \lambda_2 \). Hence, \( (\sigma_1(\cdot | \mu_1), \sigma_2(\cdot | \lambda_2)) \in \text{BNE}(\eta) \). The equilibrium distribution over action profiles is given by

\[
\sigma_\eta(a_1, a_2) = \sum_{\mu_1, \lambda_2, \theta} p_\eta(\mu_1, \lambda_2, \theta) \sigma_1(a_1 | \mu_1) \sigma_2(a_2 | \lambda_2)
\]

\[
= \sum_{\mu_1, \lambda_2, \theta} \sum_{t_1, t_2} p_r(t_1, t_2, \theta) \sigma_1(a_1 | t_1) \sigma_2(a_2 | t_2)
\]

\[
= \sum_{t_1, t_2} p_r(t_1, t_2, \theta) \sigma_1(a_1 | t_1) \sigma_2(a_2 | t_2)
\]

\[
= \sigma_\tau(a_1, a_2),
\]

where we have used that \( \tau \) induces \( \eta \) and the established equivalence between the \( \sigma_i \)’s. Hence, \( O_{\text{BCE}_B}(\tau) = O_{\text{BNE}_B}(\eta). \) \( \square \)
F. On Minimal Consistent Distributions

Proposition 8.

(i) Suppose that $\tau \in \mathcal{C}$ is conditionally independent. If $\mu = \text{marg}_{\Theta} p_\tau$ is not degenerate, then $\tau$ is minimal iff it is not perfectly informative. If $\mu$ is degenerate, then $\tau$ is minimal.

(ii) A public $\tau \in \mathcal{C}$ is minimal iff $\text{supp} \tau$ is a singleton.

Proof. Part (i). Suppose that $\tau$ is conditionally independent and $\mu$ is non-degenerate. First, if $\tau$ is perfectly informative, then it can be written $\tau = \sum_{\theta} \mu(\theta) \tau_{\theta}$, where $\tau_{\theta}$ is a distribution that gives probability 1 to belief hierarchies representing common knowledge that $\theta$ has realized. Given $\mu(\theta) \in (0, 1)$, $\tau$ is therefore a convex combination of belief-hierarchy distributions, hence it is not minimal.

Second, we show that if $\tau$ is non-minimal, then it must be perfectly informative. Let $\tau$ be non-minimal. By Lemma 2, there exist $\alpha \in (0, 1)$ and $\tau' \neq \tau''$ such that $\tau = \alpha \tau' + (1 - \alpha) \tau''$. Without loss, we can assume $\text{supp} \tau' \cap \text{supp} \tau'' = \emptyset$. If this were not the case, we could find a consistent $\tau^*$ with $\text{supp} \tau^* = \text{supp} \tau' \cap \text{supp} \tau''$, in which case $\tau$ could be written as $\tau = \kappa \tau^* + (1 - \kappa) \hat{\tau}$, where $\kappa = \alpha q + (1 - \alpha) r$, $q = \tau'(\text{supp} \tau^*)$, $r = \tau''(\text{supp} \tau^*)$ and $\hat{\tau} = \frac{\alpha(1 - q)}{1 - \kappa} (\tau' \setminus \tau^*) + \frac{(1 - \alpha)(1 - q)}{1 - \kappa} (\tau'' \setminus \tau^*)$.

Now, take $t' \in \text{supp} \tau'$, $t'' \in \text{supp} \tau''$ and note

$$p_r(t'_i, t''_{i,j} | \theta) = \alpha p_r(t'_i, t''_{i,j} | \theta) + (1 - \alpha) p_r(t'_i, t''_{i,j} | \theta) = 0 \quad (32)$$

for all $\theta$ and $i$. If $\tau$ were conditionally independent,

$$p_r(t'_i, t''_{i,j} | \theta) = p_r(t'_i | \theta) \prod_{j \neq i} p_r(t''_{j} | \theta) = (\alpha p_r(t'_i | \theta) + (1 - \alpha) p_r(t''_{i} | \theta)) \prod_{j \neq i} \left(\alpha p_r(t''_{i} | \theta) + (1 - \alpha) p_r(t''_{j} | \theta)\right) \quad \text{for any } \tau, \tau' \in \mathcal{C} \text{ such that } \text{supp} \tau \cap \text{supp} \tau' \neq \emptyset,$$
which is strictly positive for some $\theta$ when $\tau$ is not perfectly informative, and thus contradicts (32). This implies that a non-minimal conditionally independent $\tau$ must be perfectly informative.

Part (ii). If $\tau$ is public, then every $\{t\}$ such that $t \in \text{supp}\tau$ is a consistent distribution. Therefore, if $\text{supp}\tau$ is a singleton, then it is clearly minimal. But if $\text{supp}\tau$ is not a singleton, then $\tau$ is a convex combination of multiple consistent distribution, in which case $\tau$ is not minimal.

Let $C_\mu := \{\tau \in C : \text{marg}_\Theta p_\tau = \mu\}$ be the set of consistent distributions with posterior $\mu \in \Delta \Theta$ and let $E_\mu := C_\mu \cap C^M$ denote the minimal ones among those. We next show that $E_\mu$ is dense in $C_\mu$, although $C^M$ is small in a measure-theoretic sense relative to $C$. Since there is no analog of the Lebesgue measure in infinite dimensional spaces, we use the notion of finite shyness proposed by Anderson and Zame (2001), which captures the idea of Lebesgue measure 0.

**Definition 4.** A measurable subset $A$ of a convex subset $C$ of a vector space $S$ is finitely shy if there exists a finite dimensional vector space $V \subseteq S$ for which $\lambda_V(C + s) > 0$ for some $s \in S$, and $\lambda_V(A + s) = 0$ for all $s \in S$, where $\lambda_V$ is the Lebesgue measure defined on $V$.

**Proposition 9.** $C^M$ is finitely shy in $C$.

**Proof.** By Lemma 1, $C$ is a convex subset of the vector space $S$ of all signed measures on $T$. Choose any distinct $e, e' \in C^M$ and let $V = \{\alpha(e - e') : \alpha \in \mathbb{R}\} \subseteq S$. By construction, $V$ is a one-dimensional subspace of $S$. Let $\lambda_V \in \Delta V$ represent the Lebesgue measure on $V$. Notice that $\alpha(e - e') = \alpha e + (1 - \alpha)e' - s$ for $s := e'$ and that $(C - s) \cap V = \{\alpha(e - e') : \alpha \in [0, 1]\}$ by convexity of $C$. Hence, $\lambda_V(C - s) > 0$.

However, since $C^M$ is the set of extreme points of $C$, for every $s \in S$, $(C^M - s) \cap V$ contains at most two points. This gives $\lambda_V(C^M - s) = 0$, since points have Lebesgue measure zero in $V$. \qed

**Proposition 10.** Let $\Sigma$ be BNE and suppose that the selection criterion is max. For any minimal belief-hierarchy distribution $e \in C^M$, there is an environment $(v, G)$ for which $\lambda^* = \delta_e$ is the essentially unique optimal solution.$^{21}$

**Proof.** Fix $e \in C^M$, $\varepsilon > 0$ and let $\mu_0 = p_e$. Denote by $G_\varepsilon(e) = (N, \{A_i, u_i\})$ the (base) game defined in Chen et al. (2010)’s Lemma 1 where $A_i \supseteq \text{supp}e_i$. In this

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$^{21}$The proof establishes the stronger claim with $\Sigma := ICR$ by using a result from Chen et al. (2010). A minimal distribution $e$ is the essentially unique optimal solution if for all $\varepsilon > 0$, there is a game $G_\varepsilon$ such that all $\tau \in C$ with $d(e, \tau) > \varepsilon$ are strictly suboptimal (the metric is defined in (33)). By choosing a constant game or a constant designer’s utility, it is easy to make all minimal distributions optimal, since the designer is indifferent among them. Uniqueness makes the result much stronger.
game, player $i$’s actions include belief hierarchies from $e_i$. The (base) game $G_x(e)$ is so conceived that, in the Bayesian game $(G_x(e), e)$, every player has a strict incentive to truthfully report his true belief hierarchy, but for any $τ$ that is suitably distant from $e$, some $i$ in the Bayesian game $(G_x(e), τ)$ has a strict incentive not to report any $t_i ∈ \text{supp } e_i$. For any $i$ and $t_i, t'_i ∈ T_i$, let

$$d_i(t_i, t'_i) := \sup_{k \geq 1} d^k(t_i, t'_i)$$

where $d^k$ is the standard metric (over $k$-order beliefs) that metrizes the topology of weak convergence. Let $R$ be the ICR actions and profiles. Lemma 1 and Proposition 3 from Chen et al. (2010) imply that for every $i$ and $t_i ∈ \text{supp } e_i$,

$$t_i ∈ \arg\max_{a_i ∈ A_i} \sum_{θ} \sum_{t_{-i} ∈ \text{supp } e_{-i}} u_i(a_i, t_{-i}, θ)\beta_i^t(θ, t_{-i}|t_i)$$

and for every $τ ∈ C$ such that

$$d(e, τ) := \max_i d_H^i(\text{supp } e_i, \text{supp } τ_i) ≥ ε,$$  \hspace{1cm} (33)

where $d_H^i$ is the standard Hausdorff metric, there exist $i$ and $t'_i ∈ \text{supp } τ_i$ such that $\text{supp } e_i ∩ R_i(t'_i) = \emptyset$. To see why, note that since $e$ is minimal, there can be no sequence $(τ_n) ∈ C$ such that $d(e, τ_n) ≥ ε$ for all $n$, while

$$\max_i \min_{t_i ∈ \text{supp } τ_n, t'_i ∈ \text{supp } e_i} d_i(t_i, t'_i) → 0.$$  \hspace{1cm} (34)

That is, for all $τ$ such that $d(e, τ) ≥ ε$, there is $δ > 0$ such that

$$\max_i \max_{t_i ∈ \text{supp } τ_n} \min_{t'_i ∈ \text{supp } e_i} d_i(t_i, t'_i) ≥ δ.$$  \hspace{1cm} (35)

Put differently, there exist $i$ and $t'_i ∈ \text{supp } τ_i$ such that $d_i(t_i, t'_i) ≥ δ > 0$ for all $t_i ∈ \text{supp } e_i$. From (the proof of) Proposition 3 in Chen et al. (2010), we conclude that $\text{supp } e_i ∩ R^k_i(t'_i) = \emptyset$ for some $k$. Given that $R_i(t'_i) = \cap_{k=1}^∞ R^k_i(t'_i)$, we have $\text{supp } e_i ∩ R_i(t'_i) = \emptyset$. Now, define the designer’s utility as $v(a) := 1(a ∈ \text{supp } e)$ for all $a ∈ A$. Then, the designer’s expected payoff is

$$w(τ) = \begin{cases} 1 & \text{if } τ = e, \\ x & \text{if } d(e, τ) < ε, \\ y & \text{if } d(e, τ) ≥ ε \end{cases}$$

where $x ≤ 1$ and $y < 1$. When $d(e, τ) < ε$, it is not excluded that $x = 1$, because all of $\text{supp } τ$, by virtue of being close to some hierarchy in $\text{supp } e$, might report only in $\text{supp } e$. However, whenever $d(e, τ) ≥ ε$, there is a hierarchy profile $t$ occurring with positive probability that reports outside $\text{supp } e$. Thus, the designer maximizes her expected payoff by setting $λ^* = δ_e$, which is Bayes-plausible since $μ_0 = p_e$. \hfill ∎
Proof of Proposition 2. Let \( \tau \in C_\mu \). We want to find a sequence \((\tau_\varepsilon) \subseteq E_\mu\) such that \( \tau_\varepsilon \xrightarrow{w} \tau \). If \( \tau \in E_\mu \), the proof is obvious. So, suppose \( \tau \notin E_\mu \). To construct \((\tau_\varepsilon)\), we work first in the space of information structures and then return to \( C \). Let \((S, \pi)\) be the information structure that induces \( \tau \) such that \( S := \text{supp} \tau \) (see (16) for example). Pick an arbitrary probability measure \( \xi \in \Delta S \) with full support, and mix \( \pi \) with \( \xi \) in the following way:

\[
\pi_\varepsilon(\hat{T}|\theta) := (1 - \varepsilon) \pi(\hat{T}|\theta) + \varepsilon \xi(\hat{T})
\]

for all \( \hat{T} \subseteq S \) and all \( \theta \). Now consider the corresponding sequence \((\tau_\varepsilon) \subseteq C\) of induced belief-hierarchy distributions. Since prior \( \mu \) has been fixed, \((\tau_\varepsilon) \subseteq C_\mu\).

By construction, \( \pi_\varepsilon \to \pi \) implies \( \tau_\varepsilon \xrightarrow{w} \tau \). We are left to show that \((\tau_\varepsilon) \subseteq E_\mu\).

Pick any \( \tau_\varepsilon \) and let \( S_\varepsilon := \text{supp} \tau_\varepsilon \). Consider any \( S' \subseteq S_\varepsilon \) and suppose by way of contradiction that it is belief-closed. That is, there exist \( i \) and a hierarchy \( t_i \in S_i' \) such that \( \beta^*_i(\Theta \times \{t_i : (t_i, t_{i-}) \in S' \mid t_i\}) = 1 \). This implies that player \( i \) knows \((t_i, t_{i-}) \in S_\varepsilon \setminus S'\) cannot realize. This contradicts the fact that \( \xi \) has full support. Thus, \( \tau_\varepsilon \in E_\mu \).

To prove that \( C_\mu \setminus E_\mu \) is dense in \( C_\mu \), fix any \( \tau \in C_\mu \), so that either \( \tau \in C_\mu \setminus E_\mu \) and the result follows trivially or \( \tau = e \in E_\mu \). In the latter, choose \( \tau' \in C_\mu \) such that \( \text{supp} \tau' \neq \text{supp} e \). Then define \( \tau^\varepsilon = \varepsilon \tau' + (1 - \varepsilon)e \) for \( \varepsilon \in (0, 1) \) and note \( \tau^\varepsilon \in C_\mu \setminus E_\mu \) for all \( \varepsilon \). Clearly, \( \tau^\varepsilon \xrightarrow{w} e \), hence \( \tau = e \) is in the closure of \( C_\mu \setminus E_\mu \).

References


