

WHEN DOES SIMPLE MEDIATION IMPROVE UPON CHEAP TALK?

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ABSTRACT

We study communication via a neutral mediating mechanism (a mediator) between an informed sender and an uninformed decision maker with conflicting preferences in the cheap-talk framework of Crawford and Sobel (1982), which generalizes the commonly used uniform-quadratic specification. The main question of this paper is to determine the scenarios in which introducing the mediator can facilitate communication compared to the most informative one-shot cheap-talk communication. We show that the advantage of the mediator comes from exploiting how the conflict of interest between the players (defined as the difference between the players' preferred actions) varies across the states. In particular, we show that, for a given cheap-talk equilibrium, there exists a critical value of state-dependent conflict of interest with which there is no mediator that can strictly improve upon this equilibrium. If the conflict of interest is strictly below the critical value at some states, then the mediator can improve upon cheap-talk communication by introducing simple lotteries over recommended actions, which extract more information about these states.