Abstract

In a dynamic entry problem a Bayesian decision maker (DM) faces an unknown payoff-relevant state of nature. In every period he decides whether to enter and collect a payoff or wait. In case he waits, the DM expects to receive a new partial information about the prevailing state. This information is given by a noisy channel whose stochastic structure is known. We show that the optimal entry strategy in each period is characterized by a threshold: enter if and only if the probability of the favorable state exceeds a pre-specified level. Furthermore, it is shown that the optimal entry threshold gets higher as the signal received gets more precise. Hence higher information quality has the same qualitative effect on DM's optimal entry strategy as higher discount factor. In this sense decision makers that have higher quality information sources tend to be more patient.