

The Value of "Cheap" Promises (joint with Zvika Neeman and Daniel Spiro)

Abstract

An informed sender is facing $n \geq 1$ receivers, each of whom wants something from the sender. The sender can only answer the requests of a subset of the receivers, who are referred to as "favored." The identities of the favored receivers are the sender's private information. The sender's payoff depends on the posterior beliefs of the receivers: she would like all receivers to believe they are favored but cares more about the beliefs of the truly favored ones. We study the informativeness of communication via public promises when the sender cannot commit to keeping her promises. We highlight factors that facilitate informative communication despite the fact that promises are mere "cheap-talk" and the sender's bias towards inducing the belief that all are favored. We present conditions for the existence of a monotone equilibrium, in which the number of promises is stochastically increasing in the number of favored receivers, and then consider "inflation strategies" – monotone strategies in which the number of promises is always weakly greater than the number of favored receivers. We show that for such strategies, as the number of favored receivers increases, the expected number of false promises increases, and promises become less informative. We apply these results to political campaigns, grade inflation, and workplace promotions.