

Assignment #2 on Minicourses 2& 3 will be created here

Assume two states L&H, with posterior $r=0.5$ leaving indifference between symmetric two actions. Assume the signal realization has density $f^H(s)=6(s-s^2)$ and $f^L(s)=1$ on $[0,1]$.

(a) What is the value of one signal, as a function of your prior p on H? Assume payoff $\max(2r, 1-2r)$ given r .

(b) In what state L or H or both or neither will informational herding lead to everyone eventually choosing the correct action?

(c) Find all cascade sets that are nonempty intervals of public beliefs.