Level-k Reasoning (Simultaneous DS and MSE Games)

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(Lecture 7, Micro Theory I-2)

Outline

- Introduction: "Initial" Deviations from MSE
  - Hide-and-Seek: Crawford & Iriberri (AER 2007)
  - Initial Joker Effect: Re-asssessing O'Neil (1987)
- Simultaneous Dominant Solvable Games
  - Price competition: Capra et al (IER 02')
  - Traveler's dilemma: Capra et al (AER 99')
  - *p*-Beauty Contest: Nagel (AER 95'), CHW (AER 98')
- Level-k Theory:
  - Stahl-Wilson (GEB95'), CGCB (ECMA01')
  - Costa-Gomes & Crawford (AER06')

Hide-and-Seek Games (with Non-neutral Location Framing)

- RTH: Rubinstein & Tversky (1993); Rubinstein, Tversky, & Heller (1996); Rubinstein (1998,1999)
- Your opponent has hidden a prize in one of four boxes arranged in a row.
- The boxes are marked as shown below: A, B, A, A.

A	B	A	A

Hide-and-Seek Games (with Non-neutral Location Framing)

- RTH (Continued):
- Your goal is, of course, to find the prize.
- His goal is that you will not find it.
- You are allowed to open only one box.
- Which box are you going to open?

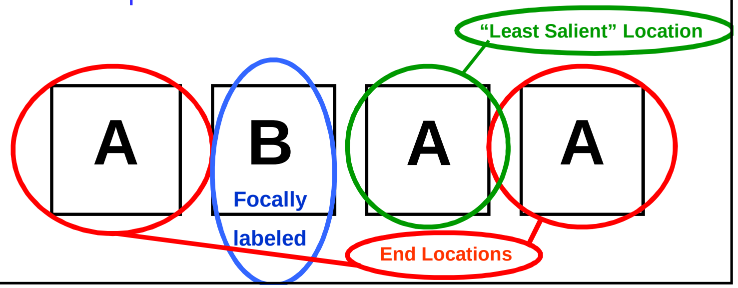
A	B	A	A

Hide-and-Seek Games (with Non-neutral Location Framing)

- Folk Theory: "…in Lake Wobegon, the correct answer is usually 'c'."
  - Garrison Keillor (1997) on multiple-choice tests
- Comment on the poisoning of Ukrainian presidential candidate (now president):
- "Any government wanting to kill an opponent …would not try it at a meeting with government officials."
  - Viktor Yushchenko, quoted in Chivers (2004)

Hide-and-Seek Games (with Non-neutral Location Framing)

- "B" is distinguished by its label
- The two "end A" may be inherently salient
- This gives the "central A" location its own brand of uniqueness as the "least salient" location



Hide-and-Seek Games (with Non-neutral Location Framing)

- RTH's game has a unique equilibrium, in which both players randomize uniformly
- Expected payoffs: Hider 3/4, Seeker 1/4

Hider/Seeker	A	B	A	A
A	0,1	1,0	1,0	1,0
B	1,0	0,1	1,0	1,0
A	1,0	1,0	0,1	1,0
A	1,0	1,0	1,0	0,1

Hide-and-Seek Games (with Non-neutral Location Framing)

- All Treatments in RTH:
- Baseline: ABAA ("Treasure")
- Variants:
  - Left-Right Reverse: AABA
  - Labeling: 1234 (2 is like "B", 3 is like "central A")
- Mine Treatments
  - Hider hides a mine in 1 location, and Seeker wants to avoid the mine (payoffs reversed)
  - "mine hiders" = seekers, "mine seekers" = hiders

Hide-and-Seek Games: Aggregate Frequencies of RTH

RTH-4	A	*B*	A	A
Hider (53)	9%	36%	40%	15%
Seeker (62)	13%	31%	45%	11%
RT-AABA-Treasure	**A**	**A**	***B***	**A**
Hider (189)	22%	35%	19%	25%
Seeker (85)	13%	51%	21%	15%
RT-AABA-Mine	**A**	**A**	***B***	**A**
Hider (132)	24%	39%	18%	18%
Seeker (73)	29%	36%	14%	22%
RT-1234-Treasure	**1**	***2***	**3**	**4**
Hider (187)	25%	22%	36%	18%
Seeker (84)	20%	18%	48%	14%
RT-1234-Mine	**1**	***2***	**3**	**4**
Hider (133)	18%	20%	44%	17%
Seeker (72)	19%	25%	36%	19%
R-ABAA	**A**	***B***	**A**	**A**
Hider (50)	16%	18%	44%	22%
Seeker (64)	16%	19%	54%	11%

Player roles reversed

Different locations for B

2 analogous to B

Hide-and-Seek Games: Aggregate Frequencies of RTH

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"Stylized facts"

Hide-and-Seek Games: Pooled Aggregate Choices of RTH

- Chi-square Test across 6 different Treatments
  - No significant differences for Seekers (*p*-value 0.48) or Hiders (*p*-value 0.16)
- Can pool data…

	A	B	A	A
Hiders (624)	0.2163	0.2115	**0.3654**	0.2067
Seekers (560)	0.1821	0.2054	**0.4589**	0.1536

Hide-and-Seek Games: Stylized Facts

- **Central A (or *3*) is most prevalent for both Hiders and Seekers**
- **Central A is even more prevalent for Seekers (or Hiders in Mine treatments)**
  - As a result, Seekers do better than in equilibrium
- Shouldn't Hiders realize that Seekers will be just as tempted to look there?
- RTH: "*The finding that both choosers and guessers selected the least salient alternative suggests little or no strategic thinking*."

Hide-and-Seek Games: Explaining the stylized facts

- Can a strategic theory explain this?
- Heterogeneous population with substantial frequencies of L2 and L3 as well as L1 (estimated 19% L1, 32% L2, 24% L3, 25% L4) can reproduce the stylized facts
- More on Level-k later…
  - Let's first see more evidence in DS Games…

Simultaneous Dominant Solvable (DS) Games

- Initial Response vs. Equilibration
- Price Competition
  - Capra, Goeree, Gomez and Holt (IER 2002)
- Traveler's Dilemma
  - Capra, Goeree, Gomez and Holt (AER 1999)
- *p*-Beauty Contest
  - Nagel (AER 1995)
  - Camerer, Ho, Weigelt (AER 1998)

Price Competition

- Capra, Goeree, Gomez & Holt (IER 2002)
  - Two firms pick prices p_1 & p_2 from \$0,60~\$1.60
  - Both get $(1+a)*p_1 / 2$ if tied; but if $p_1 < p_2$
  - Low-price firm gets $1*p_1$; other firm gets $a*p_1$
- a = responsiveness to "best price" (=0.2/0.8)
  - $a \rightarrow 1$: "Meet-or-release" (low price guarantees)
  - $a<1$: Bertrand competition predicts lowest price

Price Competition: Data

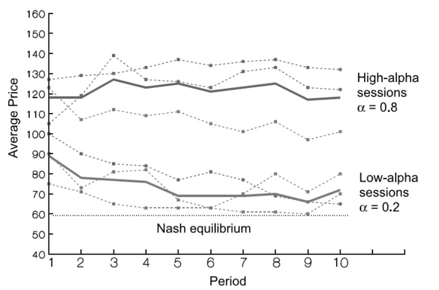


Figure 5

Average prices by session (dashed lines) and treatment (dark line)

Price Competition: Simulation

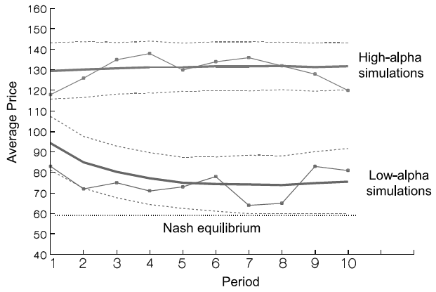


FIGURE 4

SIMULATED AVERAGE PRICES OBTAINED FROM 1000 SIMULATIONS (DARK LINES) ±2 STANDARD DEVIATIONS (DOTTED LINES) AND A TYPICAL RUN (LINES CONNECTING SQUARES)

Traveler's Dilemma

- Capra, Goeree, Gomez & Holt (AER 1999)
  - Two travelers state claim p_1 and p_2 : 80~200
  - Airline awards both the minimum claim, but
  - reward R to the one who stated the lower claim
  - penalize the other by R
- Unique NE: race to the bottom → lowest claim
  - Like price competition game or *p*-beauty contest

Traveler's Dilemma: Data

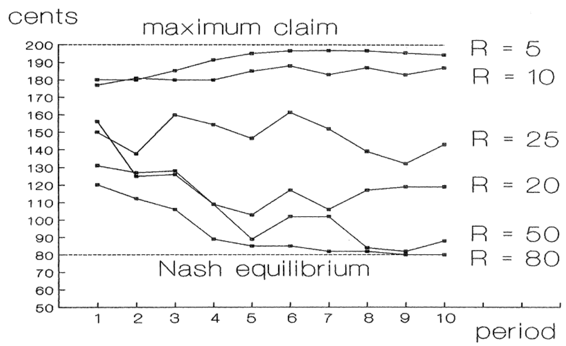
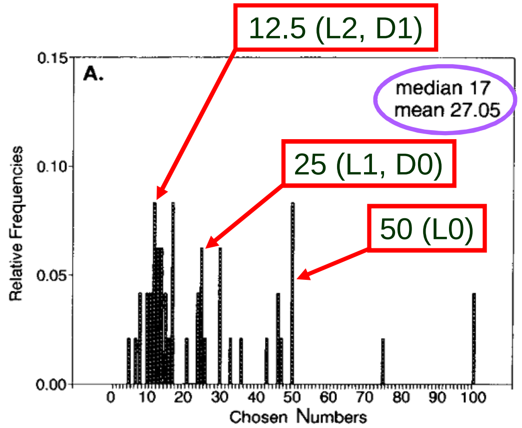


FIGURE 1. DATA FOR PART A FOR VARIOUS VALUES OF THE REWARD/PENALTY PARAMETER

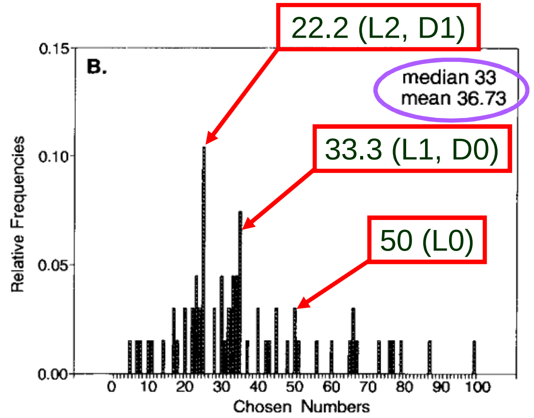
p-Beauty Contest

- Each of N players choose x_i from $[0,100]$
- Target is p*(average of x_i)
- Closest x_i wins fixed prize
- $(67,100]$ violates 1st order dominance
- $(45, 67]$ obeys 1 step (not 2) of dominance
- Nagel (AER 1995):
  - Next 2 slides
- Ho, Camerer and Weigelt (AER 1998)
  - BGT, Figure 1.3, 5.1

Nagel (AER 1995): Figure 1A - p=1/2



Nagel (AER 1995): Figure 1B - p=2/3



p-Beauty Contest Game

- Named after Keynes, General Theory (1936)
- **"…professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs,**

p-Beauty Contest Game

- **the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole…."**

p-Beauty Contest Game

- **"It is not a case of choosing those [faces] that, to the best of one's judgment, are really the prettiest,**
- **nor even those that average opinion genuinely thinks the prettiest.**

p-Beauty Contest Game

- **We have reached the third degree where we devote our intelligences to…**
- **anticipating what average opinion expects the average opinion to be.**
- **And there are some, I believe, who practice the fourth, fifth and higher degrees."**
  - Keynes, General Theory, 1936, pp. 155-56

Camerer, Ho and Weigelt (AER 1998): Design

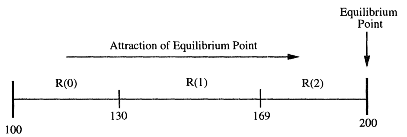


FIGURE 1A. A FINITE-THRESHOLD GAME, $FT(n) = ([100, 200], 1.3, n)$

3 rounds of IEDS

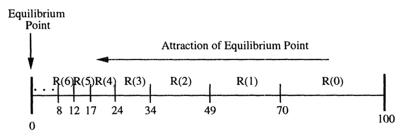


FIGURE 1B. AN INFINITE-THRESHOLD GAME, $IT(n) = ([0, 100], 0.7, n)$

∞ rounds of IEDS

Camerer, Ho and Weigelt (AER 1998): Design

TABLE 1—THE EXPERIMENTAL DESIGN

	Group size: 3	Group size: 7
Finite → Infinite		
	$FT(1.3, 3) \rightarrow IT(0.7, 3)$ (7 groups)	$FT(1.3, 7) \rightarrow IT(0.7, 7)$ (7 groups)
	$FT(1.1, 3) \rightarrow IT(0.9, 3)$ (7 groups)	$FT(1.1, 7) \rightarrow IT(0.9, 7)$ (7 groups)
Infinite → Finite		
	$IT(0.7, 3) \rightarrow FT(1.3, 3)$ (7 groups)	$IT(0.7, 7) \rightarrow FT(1.3, 7)$ (7 groups)
	$IT(0.9, 3) \rightarrow FT(1.1, 3)$ (6 groups)	$IT(0.9, 7) \rightarrow FT(1.1, 7)$ (7 groups)

Camerer, Ho and Weigelt (AER 1998)

- **RESULT 1:**
  First-period choices are far from equilibrium, and centered near the interval midpoint. Choices converge toward the equilibrium point over time.
- Baseline: IT(0.9,7) and IT(0.7, 7)

Camerer, Ho and Weigelt (AER 1998): p = 0.9 vs. 0.7

40.5 (L2, D1)

24.5 (L2, D1)

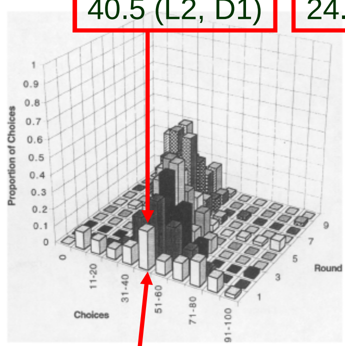


FIGURE 2C. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN *IT*(0.9, 7)

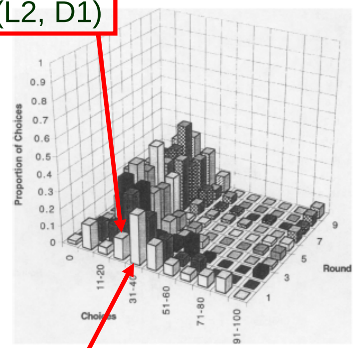


FIGURE 2A. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN *IT*(0.7, 7)

45 (L1, D0)

35 (L1, D0)

"*p*=0.7" closer to 0

Camerer, Ho and Weigelt (AER 1998)

- IT(0.9,7) vs. IT(0.7, 7)
- **RESULT 2:**
  On average, choices are closer to the equilibrium point for games with finite thresholds, and for games with *p* further from 1.
- Infinite vs. Finite…

Camerer, Ho and Weigelt (AER 1998): Finite Thresholds

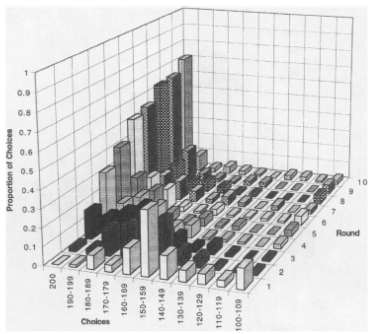


FIGURE 3A. CHOICES OVER ROUND IN *FT* GAMES PLAYED BY 3-PERSON GROUPS

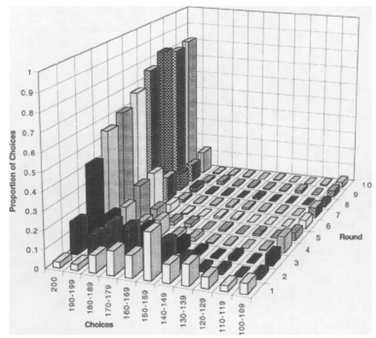


FIGURE 3B. CHOICES OVER ROUND IN *FT* GAMES PLAYED BY 7-PERSON GROUPS

FT closer to Equilibrium

7-group closer than 3-group

Camerer, Ho and Weigelt (AER 1998)

- **RESULT 3:**
  Choices are closer to equilibrium for large (7-person) groups than for small (3-person) groups.

- More on 7-group vs. 3-group…

Camerer, Ho and Weigelt (AER 1998): 7-grp vs. 3-grp

24.5 (L2, D1)

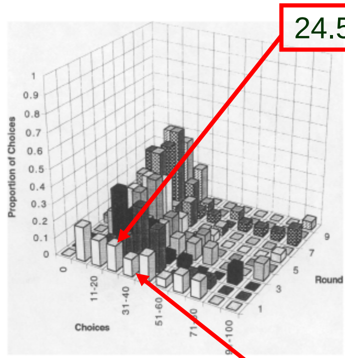


FIGURE 2E. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN $\Pi(0.7, 3)$

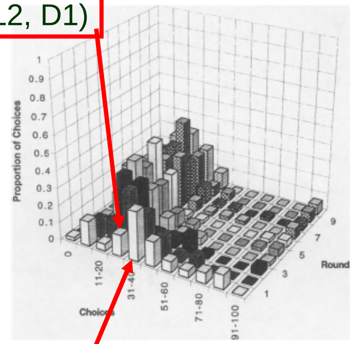


FIGURE 2A. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN $\Pi(0.7, 7)$

35 (L1, D0)

Camerer, Ho and Weigelt (AER 1998): 7-grp vs. 3-grp

40.5 (L2, D1)

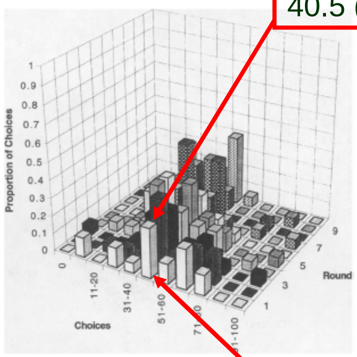


FIGURE 2G. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN $\Pi(0.9, 3)$

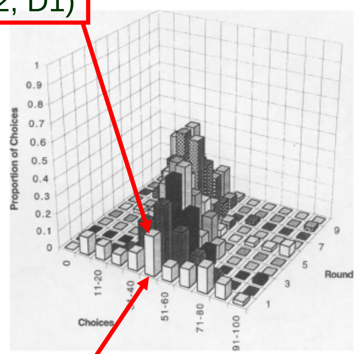


FIGURE 2C. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN $\Pi(0.9, 7)$

45 (L1, D0)

Camerer, Ho and Weigelt (AER 1998)

- **RESULT 4:**
  Choices by [cross-game] experienced subjects are no different than choices by inexperienced subjects in the first round, but converge faster to equilibrium.

- Inexperienced vs. Experienced…

Camerer, Ho and Weigelt (AER 1998): Exp. vs. Inexp.

24.5 (L2, D1)

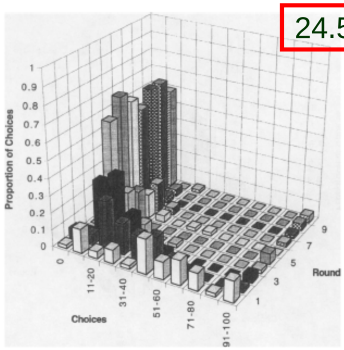


FIGURE 2B. EXPERIENCED SUBJECTS' CHOICES OVER ROUND IN Π(0.7, 7)

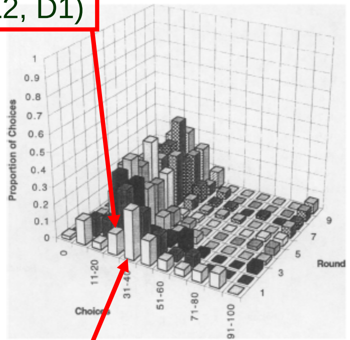


FIGURE 2A. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN Π(0.7, 7)

35 (L1, D0)

Camerer, Ho and Weigelt (AER 1998): Exp. vs. Inexp.

40.5 (L2, D1)

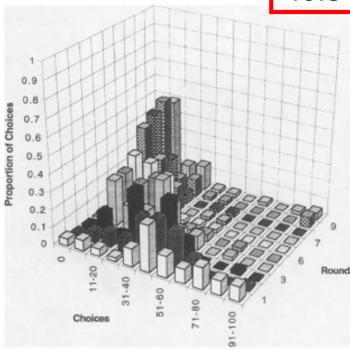


FIGURE 2D. EXPERIENCED SUBJECTS' CHOICES OVER ROUND IN Π(0.9, 7)

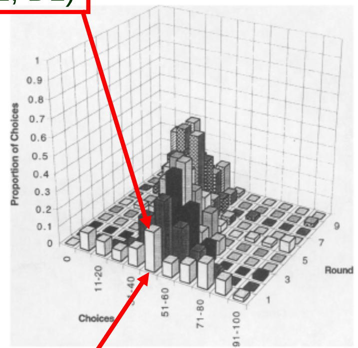


FIGURE 2C. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN Π(0.9, 7)

45 (L1, D0)

Camerer, Ho and Weigelt (AER 1998): Exp. vs. Inexp.

24.5 (L2, D1)

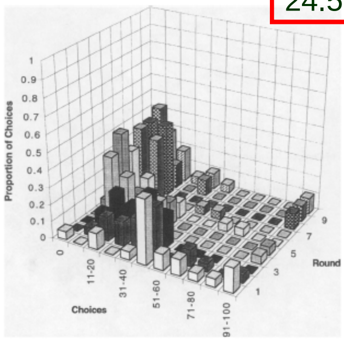


FIGURE 2F. EXPERIENCED SUBJECTS' CHOICES OVER ROUND IN Π(0.7, 3)

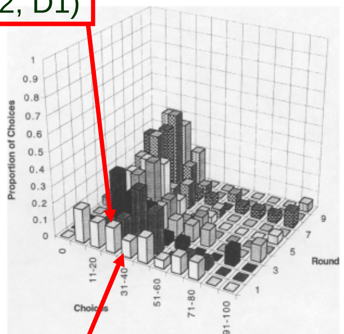


FIGURE 2E. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN Π(0.7, 3)

35 (L1, D0)

Camerer, Ho and Weigelt (AER 1998): Exp. vs. Inexp.

40.5 (L2, D1)

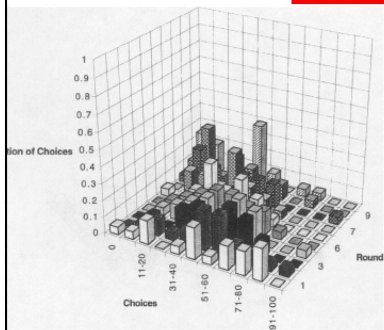


FIGURE 2H. EXPERIENCED SUBJECTS' CHOICES OVER ROUND IN Π(0.9, 3)

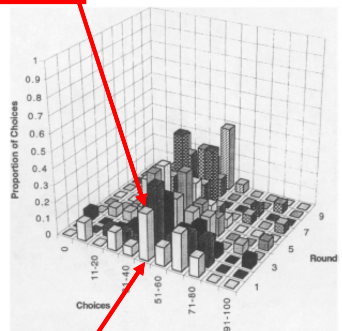


FIGURE 2G. INEXPERIENCED SUBJECTS' CHOICES OVER ROUND IN Π(0.9, 3)

45 (L1, D0)

Camerer, Ho and Weigelt (AER 1998)

- Classification of Types
  - Follow Stahl and Wilson (GEB 1995)
- Level-0: pick randomly from N(mu, sigma)
- Level-1: BR to level-0 with noise
- Level-2: BR to level-1 with noise
- Level-3: BR to level-2 with noise
- Estimate type, error using MLE

Camerer, Ho and Weigelt (AER 1998)

TABLE 3—MAXIMUM-LIKELIHOOD ESTIMATES AND LOG-LIKELIHOODS FOR LEVELS OF ITERATED DOMINANCE (FIRST-ROUND DATA ONLY)

Parameter estimates	Out data (groups of 3 or 7)		Nagel's data (groups of 16–18)	
	IT(*p*, *n*)	*FT*(*p*, *n*)	*IT*(0.5, *n*)	*IT*(2/3, *n*)
ω_0	15.93	21.72	45.83 (23.94)	28.36 (13.11)
ω_1	20.74	31.46	37.50 (29.58)	34.33 (44.26)
ω_2	13.53	12.73	16.67 (40.84)	37.31 (39.34)
ω_3	49.50	34.08	0.00 (5.63)	0.00 (3.28)
μ	70.13	100.50	35.53 (50.00)	52.23 (50.00)
σ	28.28	26.89	22.70	14.72
ρ	1.00	1.00	0.24	1.00
$-LL$	1128.29	1057.28	168.48	243.95

Type distribution…

Camerer, Ho and Weigelt (AER 1998)

- Robustness checks:
  - High stakes (Fig.1.3 - small effect lowering numbers)
  - Median vs. Mean (Nagel 99' - same): BGT Figure 5.1
  - *p* (Median +18)*: equilibrium inside
- Subject Pool Variation:
  - Portfolio managers
  - Econ PhD, Caltech undergrads
  - Caltech Board of Trustees (CEOs)
  - Readers of Financial Times and Expansion
- Experience vs. Inexperience (for the same game)
  - Slonim (EE 2005) – Experience good only for 1st round

Level-k Reasoning

- Theory for Initial Response (BGT, Ch. 5) vs. Theory for Equilibration (BGT, Ch. 6)
- First: Stahl and Wilson (GEB 1995)
- Better: Costa-Gomes, Crawford & Broseta (Econometrica 2001)
- New: Camerer, Ho and Chong (QJE 2004)
  - Poisson Cognitive Hierarchy
- New: Costa-Gomes & Crawford (AER 2006)

Level-k Theory: Stahl and Wilson (GEB 1995)

- Stahl and Wilson (GEB 1995)
- Level-0: Random play
- Level-1: BR to Random play
- Level-2: BR to Level-1
- Nash: Play Nash Equilibrium
- Worldly: BR to distribution of Level-0, Level-1 and Nash types

Level-k Theory: Stahl and Wilson (GEB 1995)

TABLE IV

PARAMETER ESTIMATES AND CONFIDENCE INTERVALS FOR MIXTURE MODEL WITHOUT RE TYPES

	Estimate	Std. Dev.	95 percent conf. int.	
γ_1	0.2177	0.0425	0.1621	0.3055
μ_2	0.4611	0.0616	0.2014 [0.2360	0.8567 0.8567]
γ_2	3.0785	0.5743	1.9029 [2.5631	4.9672 5.0000]
γ_3	4.9933	0.9357	1.9964	5.0000
μ_4	0.0624	0.0063	0.0527	0.0774
ϵ_4	0.4411	0.0773	0.2983	0.5882
γ_4	0.3326	0.0549	0.2433	0.4591
α_0	0.1749	0.0587	0.0675	0.3047
α_1	0.2072	0.0575	0.1041	0.3298
α_2	0.0207	0.0202	0.0000	0.0625
α_3	0.1666	0.0602	0.0600	0.2957
α_4	0.4306	0.0782	0.2810	0.5723
$\mathcal{L}$	-442.727			

Type distribution…

Level-k Theory: Costa-Gomes, Crawford and Broseta (Econometrica 2001)

- 18 “2-player NF games” designed to separate:
- Naïve (L1), Altruistic (max sum)
- Optimistic (maximax), Pesimistic (maximin)
- L2 (BR to L1)
- D1/D2 (1/2 round of DS deletion)
- Sophisticated (BR to empirical)
- Equilibrium (play Nash)

Level-k Theory: CGCB (Econometrica 2001)

- Three treatments (all no feedback):
- Baseline (B)
  - Mouse click to open payoff boxes
- Open Box (OB)
  - Payoff boxes always open
- Training (TS)
  - Rewarded to choose equilibrium strategies

Level-k Theory: CGCB (Econometrica 2001)

- Results 1: Consistency of Strategies with Iterated Dominance
- B, OB: 90%, 65%, 15% equilibrium play
  - For Equilibria requiring 1, 2, 3 levels of ID
- TS: 90-100% equilibrium play
  - For all levels
- Game-theoretic reasoning is not computationally difficult, but unnatural.

Level-k Theory: CGCB (2001)

- Result 2: Estimate Subject Decision Rule

Rule	E(u)	Choice (%)	Choice+Lookup (%)
Altruistic	17.11	8.9	2.2
Pessimistic	20.93	0	4.5
Naïve	21.38	22.7	44.8
Optimistic	21.38	0	2.2
L2	24.87	44.2	44.1
D1	24.13	19.5	0
D2	23.95	0	0
Equilibrium	24.19	5.2	0
Sophisticated	24.93	0	2.2

Level-k Theory: CGCB (2001)

- Result 3: Information Search Patterns

Subject / Rule	↕ own payoff		↔ other payoff	
	Predicted	Actual	Predicted	Actual
TS (Equil.)	>31	63.3	>31	69.3
Equilibrium	>31	21.5	>31	79.0
Naïve/Opt.	<31	21.1	-	48.3
Altruistic	<31	21.1	-	60.0
L2	>31	39.4	=31	30.3
D1	>31	28.3	>31	61.7

Level-k Theory: CGCB (Econometrica 2001)

- Result 3: Information Search Patterns
- Occurrence (weak requirement)
  - All necessary lookups exist somewhere
- Adjacency (strong requirement)
  - Payoffs compared by rule occur next to each other
- H-M-L: % of Adjacency | 100% occurrence

Level-k Theory: CGCB (Econometrica 2001)

- Result 3: Information Search Patterns

TABLE V

AGGREGATE RATES OF COMPLIANCE WITH TYPES' OCCURRENCE AND ADJACENCY FOR TS AND BASELINE SUBJECTS, AND FOR BASELINE SUBJECTS BY MOST LIKELY TYPE ESTIMATED FROM DECISIONS ALONE, IN PERCENTAGES (— VACUOUS)

Treatment (# subjects)	*Altruistic* $j = H,M,L,0$	*Pessimistic* $j = H,M,L,0$	*Naïve* $j = H,M,L,0$	*Optimistic* $j = A,0$	*L2* $j = H,M,L,0$	*D1* $j = H,M,L,0$	*D2* $j = H,M,L,0$	*Equilibrium* $j = H,M,L,0$	*Sophisticated* $j = H,M,L,0$
TS (12)	3,10,50,27	44,7,36,13	83,2,0,15	86,14	76,2,0,22	92,3,1,5	92,3,1,5	96,1,1,3	75,1,1,24
Baseline (45)	14,11,51,24	74,2,11,14	78,4,4,14	85,15	67,14,5,14	52,19,15,14	50,19,15,14	42,23,19,16	39,21,20,21
Altruistic (2)	78,6,11,6	56,8,33,3	53,3,42,3	97,3	47,8,39,6	36,6,56,3	33,8,56,3	31,11,56,3	28,14,56,3
Pessimistic (0)	—,—,—,—	—,—,—,—	—,—,—,—	—,—	—,—,—,—	—,—,—,—	—,—,—,—	—,—,—,—	—,—,—,—
Naïve/Optim. (11)	9,5,53,33	85,1,9,5	89,5,3,4	96,4	42,24,3,31	45,22,20,13	43,18,23,16	26,24,28,23	23,23,27,27
L2 (23)	8,12,58,22	72,2,9,17	78,3,0,18	80,20	85,6,3,6	57,20,9,15	54,21,10,15	49,24,12,15	46,22,12,20
D1 (7)	23,21,26,29	59,3,16,23	63,7,6,23	77,23	53,21,6,21	48,17,14,20	45,19,15,21	42,20,17,21	38,14,21,27
D2 (0)	—,—,—,—	—,—,—,—	—,—,—,—	—,—	—,—,—,—	—,—,—,—	—,—,—,—	—,—,—,—	—,—,—,—
Equilibrium (2)	6,8,86,0	100,0,0,0	97,3,0,0	100,0	64,36,0,0	69,17,14,0	67,19,14,0	56,25,19,0	53,19,28,0
Sophisticated (0)	—,—,—,—	—,—,—,—	—,—,—,—	—,—	—,—,—,—	—,—,—,—	—,—,—,—	—,—,—,—	—,—,—,—

Level-k Theory: (Poisson) Cognitive Hierarchy

- Camerer, Ho and Chong (QJE 2004)
- Frequency of level-k thinkers is $f(k|\tau)$
  - *τ = mean number of thinking steps*
- Level-0: choose randomly or use heuristics
- Level-k thinkers use *k* steps of thinking BR to a mixture of lower-step thinkers
  - Belief about others is Truncated Poisson
- Easy to compute; Explains many data

Level-k Theory: Costa-Gomes and Crawford (AER 2006)

- 2-Person (*p*-Beauty Contest) Guessing Games
  - Player 1's guesses between [300,500], target = 0.7
  - Player 2's guesses between [100,900], target = 1.5
  - 0.7 x 1.5 = 1.05 > 1…
- Unique Equilibrium at upper bound (500, 750)
- In general:
- Target1 x Target > 1: Nash at upper bounds
- Target1 x Target < 1: Nash at lower bounds

Level-k Theory: Costa-Gomes and Crawford (AER 2006)

- 16 Different Games
- Limits:
- "α" = [100, 500], "β" = [100, 900],
- "γ" = [300, 500], "δ" = [300, 900]
- Target: "1" = 0.5, "2" = 0.7, "3" = 1.3, "4" = 1.5
- No feedback – Elicit Initial Responses

Level-k Theory: Costa-Gomes and Crawford (AER 2006)

- Define Various Types:
- Equilibrium (EQ): BR to Nash (play Nash)
- Defining L0 as uniformly random
  - Based on evidence from past normal-form games
- Level-k types L1, L2, and L3:
- L1: BR to L0
- L2: BR to L1
- L3: BR to L2

Level-k Theory: Costa-Gomes and Crawford (AER 2006)

- Dominance types:
  - D1: Does one round of dominance and BR to a uniform prior over partner's remaining decisions
  - D2: Does two rounds and BR to a uniform prior
- Sophisticated (SOPH): BR to empirical distribution of others' decisions
  - Ideal type (if all SOPH, coincide with Equilibrium)
  - See if anyone has a "transcended" understanding of others' decisions

Level-k Theory: CGC(AER 06')

Game	L1	L2	L3	D1	D2	EQ	SOPH
14. β4γ2	600	525	630	600	611.25	750	630
6. δ3γ4	520	650	650	617.5	650	650	650
7. δ3δ3	780	900	900	838.5	900	900	900
11. δ2β3	350	546	318.5	451.5	423.15	300	420
16. α4α2	450	315	472.5	337.5	341.25	500	375
1. α2β1	350	105	122.5	122.5	122.5	100	122
15. α2α4	210	315	220.5	227.5	227.5	350	262
13. γ2β4	350	420	367.5	420	420	500	420
5. γ4δ3	500	500	500	500	500	500	500
4. γ2β1	350	300	300	300	300	300	300
10. α4β1	500	225	375	262.5	262.5	150	300
8. δ3δ3	780	900	900	838.5	900	900	900
12. β3δ2	780	455	709.8	604.5	604.5	390	695
3. β1γ2	200	175	150	200	150	150	162
2. β1α2	150	175	100	150	100	100	132
9. β1α4	150	250	112.5	162.5	131.25	100	187

Level-k Theory: Costa-Gomes and Crawford (AER 2006)

- 43 (out of 88) subjects in the baseline made exact guesses (+/- 0.5) in 7 or more games
- Distribution: (L1, L2, L3, EQ) = (20, 12, 3, 8)

TABLE 1—SUMMARY OF BASELINE AND OB SUBJECTS' ESTIMATED TYPE DISTRIBUTIONS

Type	Apparent from guesses	Econometric from guesses	Econometric from guesses, excluding random	Econometric from guesses, with specification test	Econometric from guesses and search, with specification test
L1	20	43	37	27	29
L2	12	20	20	17	14
L3	3	3	3	1	1
D1	0	5	3	1	0
D2	0	0	0	0	0
Eq.	8	14	13	11	10
Soph.	0	3	2	1	1
Unclassified	45	0	10	30	33

Note: The far-right-hand column includes 17 OB subjects classified by their econometric-from-guesses type estimates.

Level-k Theory: Costa-Gomes and Crawford (AER 2006)

- No Dk types
- No SOPH types
- No L0 (only in the minds of L1…)
- Deviation from Equilibrium is “cognitive”
- Cannot distinguish/falsify Cognitive Hierarchy
  - BR against lower types, not just L(k-1)
- But distribution is not Poisson (against CH)
  - Is the Poisson assumption crucial?

Level-k Theory: Costa-Gomes and Crawford (AER 2006)

- Pseudotypes: Constructed with subject’s guesses in the 16 games. (Pseudo-1 ~ 88)
- Specification Test: Compare the likelihood of subject’s type with likelihoods of pseudotypes
  - Should beat at least 87/8 = 11 pseudotypes
  - Unclassified if failed
- Omitted Type Test: Find clusters that
  - (a) Look like each other, but (b) not like others
  - Pseudotype likelihoods high within, low outside

Level-k Theory: Costa-Gomes and Crawford (AER 2006)

- 5 small clusters; total = 11 of 88 subjects
- Other clusters?
  - Could find more smaller clusters in a larger sample, but size smaller than 2/88 (~2%)
- Smaller clusters could be treated as errors
  - No point to build one model per subject…
  - A model for only 2% of population is not general enough to make it worth the trouble

Level-k Theory: Costa-Gomes and Crawford (AER 2006)

- The Level-k model explains a large fraction of subjects’ deviations from equilibrium (that can be explained by a model)
- Although the model explains only half or a bit more of subjects’ deviations from equilibrium,
- it may still be optimal for a modeler to treat the rest of the deviations as errors
  - Since the rest is not worth modeling…

How Level-k Reasoning Explain Hide-and-Seek Games?

- Aggregate RTH Hide-and-Seek Game Results:
- Both Hiders and Seekers over-choose *central A*
- Seekers *central A* even more than hiders

	A	B	A	A
Hiders (624)	0.2163	0.2115	**0.3654**	0.2067
Seekers (560)	0.1821	0.2054	**0.4589**	0.1536

Hide-and-Seek Games: Crawford & Ireberri (AER 2007)

- Can a strategic theory explain this?
- Level-k: Each role is filled by *Lk* types: *L0*, *L1*, *L2*, *L3*, or *L4* (probabilities to be estimated…)
  - Note: In Hide and Seek the types cycle after *L4*…
- High types anchor beliefs in a naïve *L0* type and adjusts with iterated best responses:
  - *L1* best responds to *L0* (with uniform errors)
  - *L2* best responds to *L1* (with uniform errors)
  - *Lk* best responds to *Lk-1* (with uniform errors)

Hide-and-Seek Games: Anchoring Type Level-*0*

- *L0* Hiders and Seekers are symmetric
  - Favor salient locations equally
- Favor "B": choose with probability $q > 1/4$
- Favor "end A": choose with probability $p/2 > 1/4$
  - Choice probabilities: $(p/2, q, 1\text{-}p\text{-}q, p/2)$
- Note: Specification of the Anchoring Type *L0* is key to model's explanatory power
  - See Crawford and Ireberri (AER 2007) for other *L0*
  - Can't use uniform *L0* (coincide with equilibrium)…

Hide-and-Seek Games: Crawford & Ireberri (AER 2007)

- More (or less) attracted to B: $p/2 < q$ $(p/2 > q)$
- L1 Hiders choose *central A*

TABLE 2—TYPES' EXPECTED PAYOFFS AND CHOICE PROBABILITIES IN RTH'S GAMES WHEN $p > 1/2$ AND $q > 1/4$

Hider	Expected payoff	Choice probability	Expected payoff	Choice probability	Seeker	Expected payoff	Choice probability	Expected payoff	Choice probability
	More B		Less B			More B		Less B	
L0 (Pr. r)					*L0* (Pr. r)				
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
B	–	q	–	q	B	–	q	–	q
A	–	$1-p-q$	–	$1-p-q$	A	–	$1-p-q$	–	$1-p-q$
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
L1 (Pr. s)					*L1* (Pr. s)				
A	$1-p/2 < 3/4$	0	$1-p/2 < 3/4$	0	A	$p/2 > 1/4$	0	$p/2 > 1/4$	1/2
B	$1-q < 3/4$	0	$1-q < 3/4$	0	B	$q > 1/4$	1	$q > 1/4$	0
A	$p+q > 3/4$	1	$p+q > 3/4$	1	A	$1-p-q < 1/4$	0	$1-p-q < 1/4$	0
A	$1-p/2 < 3/4$	0	$1-p/2 < 3/4$	0	A	$p/2 > 1/4$	0	$p/2 > 1/4$	1/2
L2 (Pr. t)					*L2* (Pr. t)				
A	1	1/3	1/2	0	A	0	0	0	0
B	0	0	1	1/2	B	0	0	0	0
A	1	1/3	1	1/2	A	1	1	1	1
A	1	1/3	1/2	0	A	0	0	0	0

Hide-and-Seek Games: Crawford & Ireberri (AER 2007)

- More (or less) attracted to B: $p/2 < q$ ($p/2 > q$)
- L1 Seekers avoid *central A* (pick B or end A)

TABLE 2—TYPES' EXPECTED PAYOFFS AND CHOICE PROBABILITIES IN RTH'S GAMES WHEN $p > 1/2$ AND $q > 1/4$

Hider	Expected payoff	Choice probability	Expected payoff	Choice probability	Seeker	Expected payoff	Choice probability	Expected payoff	Choice probability
	More B		Less B			More B		Less B	
L0 (Pr. r)					*L0* (Pr. r)				
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
B	–	q	–	q	B	–	q	–	q
A	–	$1-p-q$	–	$1-p-q$	A	–	$1-p-q$	–	$1-p-q$
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
L1 (Pr. s)					*L1* (Pr. s)				
A	$1-p/2 < 3/4$	0	$1-p/2 < 3/4$	0	A	$p/2 > 1/4$	0	$p/2 > 1/4$	1/2
B	$1-q < 3/4$	0	$1-q < 3/4$	0	B	$q > 1/4$	1	$q > 1/4$	0
A	$p+q > 3/4$	1	$p+q > 3/4$	1	A	$1-p-q < 1/4$	0	$1-p-q < 1/4$	0
A	$1-p/2 < 3/4$	0	$1-p/2 < 3/4$	0	A	$p/2 > 1/4$	0	$p/2 > 1/4$	1/2
L2 (Pr. t)					*L2* (Pr. t)				
A	1	1/3	1/2	0	A	0	0	0	0
B	0	0	1	1/2	B	0	0	0	0
A	1	1/3	1	1/2	A	1	1	1	1
A	1	1/3	1/2	0	A	0	0	0	0

Hide-and-Seek Games: Crawford & Ireberri (AER 2007)

- More (or less) attracted to B: $p/2 < q$ ($p/2 > q$)
- L2 Hiders choose *central A* with prob. in [0,1]

TABLE 2—TYPES' EXPECTED PAYOFFS AND CHOICE PROBABILITIES IN RTH'S GAMES WHEN $p > 1/2$ AND $q > 1/4$

Hider	Expected payoff	Choice probability	Expected payoff	Choice probability	Seeker	Expected payoff	Choice probability	Expected payoff	Choice probability
	More B		Less B			More B		Less B	
L0 (Pr. r)					*L0* (Pr. r)				
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
B	–	q	–	q	B	–	q	–	q
A	–	$1-p-q$	–	$1-p-q$	A	–	$1-p-q$	–	$1-p-q$
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
L1 (Pr. s)					*L1* (Pr. s)				
A	$1-p/2 < 3/4$	0	$1-p/2 < 3/4$	0	A	$p/2 > 1/4$	0	$p/2 > 1/4$	1/2
B	$1-q < 3/4$	0	$1-q < 3/4$	0	B	$q > 1/4$	1	$q > 1/4$	0
A	$p+q > 3/4$	1	$p+q > 3/4$	1	A	$1-p-q < 1/4$	0	$1-p-q < 1/4$	0
A	$1-p/2 < 3/4$	0	$1-p/2 < 3/4$	0	A	$p/2 > 1/4$	0	$p/2 > 1/4$	1/2
L2 (Pr. t)					*L2* (Pr. t)				
A	1	1/3	1/2	0	A	0	0	0	0
B	0	0	1	1/2	B	0	0	0	0
A	1	1/3	1	1/2	A	1	1	1	1
A	1	1/3	1/2	0	A	0	0	0	0

Hide-and-Seek Games: Crawford & Ireberri (AER 2007)

- More (or less) attracted to B: $p/2 < q$ ($p/2 > q$)
- L2 Seekers choose *central A* for sure

TABLE 2—TYPES' EXPECTED PAYOFFS AND CHOICE PROBABILITIES IN RTH'S GAMES WHEN $p > 1/2$ AND $q > 1/4$

Hider	Expected payoff	Choice probability	Expected payoff	Choice probability	Seeker	Expected payoff	Choice probability	Expected payoff	Choice probability
	More B		Less B			More B		Less B	
L0 (Pr. r)					*L0* (Pr. r)				
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
B	–	q	–	q	B	–	q	–	q
A	–	$1-p-q$	–	$1-p-q$	A	–	$1-p-q$	–	$1-p-q$
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
L1 (Pr. s)					*L1* (Pr. s)				
A	$1-p/2 < 3/4$	0	$1-p/2 < 3/4$	0	A	$p/2 > 1/4$	0	$p/2 > 1/4$	1/2
B	$1-q < 3/4$	0	$1-q < 3/4$	0	B	$q > 1/4$	1	$q > 1/4$	0
A	$p+q > 3/4$	1	$p+q > 3/4$	1	A	$1-p-q < 1/4$	0	$1-p-q < 1/4$	0
A	$1-p/2 < 3/4$	0	$1-p/2 < 3/4$	0	A	$p/2 > 1/4$	0	$p/2 > 1/4$	1/2
L2 (Pr. t)					*L2* (Pr. t)				
A	1	1/3	1/2	0	A	0	0	0	0
B	0	0	1	1/2	B	0	0	0	0
A	1	1/3	1	1/2	A	1	1	1	1
A	1	1/3	1/2	0	A	0	0	0	0

TABLE 2—TYPES' EXPECTED PAYOFFS AND CHOICE PROBABILITIES IN RTH'S GAMES WHEN $p > 1/2$ AND $q > 1/4$

Hider	Expected payoff	Choice probability	Expected payoff	Choice probability	Seeker	Expected payoff	Choice probability	Expected payoff	Choice probability
	More B		Less B			More B		Less B	
L0 (Pr. r)					*L0* (Pr. r)				
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
B	–	q	–	q	B	–	q	–	q
A	–	$1-p-q$	–	$1-p-q$	A	–	$1-p-q$	–	$1-p-q$
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$

- More (or less) attracted to B: $p/2 < q$ ($p/2 > q$)
- L3 Hiders avoid *central A*

L2 (Pr. t)					*L2* (Pr. t)				
A	1	1/3	1/2	0	A	0	0	0	0
B	0	0	1	1/2	B	0	0	0	0
A	1	1/3	1	1/2	A	1	1	1	1
A	1	1/3	1/2	0	A	0	0	0	0
L3 (Pr. u)					*L3* (Pr. u)				
A	1	1/3	1	1/3	A	1/3	1/3	0	0
B	1	1/3	1	1/3	B	0	0	1/2	1/2
A	0	0	0	0	A	1/3	1/3	1/2	1/2
A	1	1/3	1	1/3	A	1/3	1/3	0	0
L4 (Pr. v)					*L4* (Pr. v)				
A	2/3	0	1	1/2	A	1/3	1/3	1/3	1/3
B	1	1	1/2	0	B	1/3	1/3	1/3	1/3
A	2/3	0	1/2	0	A	0	0	0	0
A	2/3	0	1	1/2	A	1/3	1/3	1/3	1/3

Table 2—Types' Expected Payoffs and Choice Probabilities in RTH's Games when $p > 1/2$ and $q > 1/4$

Hider	Expected payoff	Choice probability	Expected payoff	Choice probability	Seeker	Expected payoff	Choice probability	Expected payoff	Choice probability
	More B		Less B			More B		Less B	
L0 (Pr. *r*)					*L0* (Pr. *r*)				
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
B	–	q	–	q	B	–	q	–	q
A	–	$1-p-q$	–	$1-p-q$	A	–	$1-p-q$	–	$1-p-q$
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$

- More (or less) attracted to B: $p/2 < q$ ($p/2 > q$)
- L3 Seekers choose *central A* w/ prob. in [0,1]

L2 (Pr. *t*)					*L2* (Pr. *t*)				
A	1	1/3	1/2	0	A	0	0	0	0
B	0	0	1	1/2	B	0	0	0	0
A	1	1/3	1	1/2	A	1	1	1	1
A	1	1/3	1/2	0	A	0	0	0	0
L3 (Pr. *u*)					*L3* (Pr. *u*)				
A	1	1/3	1	1/3	A	1/3	1/3	0	0
B	1	1/3	1	1/3	B	0	0	1/2	1/2
A	0	0	0	0	A	1/3	1/3	1/2	1/2
A	1	1/3	1	1/3	A	1/3	1/3	0	0
L4 (Pr. *v*)					*L4* (Pr. *v*)				
A	2/3	0	1	1/2	A	1/3	1/3	1/3	1/3
B	1	1	1/2	0	B	1/3	1/3	1/3	1/3
A	2/3	0	1/2	0	A	0	0	0	0
A	2/3	0	1	1/2	A	1/3	1/3	1/3	1/3

Table 2—Types' Expected Payoffs and Choice Probabilities in RTH's Games when $p > 1/2$ and $q > 1/4$

Hider	Expected payoff	Choice probability	Expected payoff	Choice probability	Seeker	Expected payoff	Choice probability	Expected payoff	Choice probability
	More B		Less B			More B		Less B	
L0 (Pr. *r*)					*L0* (Pr. *r*)				
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
B	–	q	–	q	B	–	q	–	q
A	–	$1-p-q$	–	$1-p-q$	A	–	$1-p-q$	–	$1-p-q$
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$

- More (or less) attracted to B: $p/2 < q$ ($p/2 > q$)
- L4 Hiders avoid *central A*

L2 (Pr. *t*)					*L2* (Pr. *t*)				
A	1	1/3	1/2	0	A	0	0	0	0
B	0	0	1	1/2	B	0	0	0	0
A	1	1/3	1	1/2	A	1	1	1	1
A	1	1/3	1/2	0	A	0	0	0	0
L3 (Pr. *u*)					*L3* (Pr. *u*)				
A	1	1/3	1	1/3	A	1/3	1/3	0	0
B	1	1/3	1	1/3	B	0	0	1/2	1/2
A	0	0	0	0	A	1/3	1/3	1/2	1/2
A	1	1/3	1	1/3	A	1/3	1/3	0	0
L4 (Pr. *v*)					*L4* (Pr. *v*)				
A	2/3	0	1	1/2	A	1/3	1/3	1/3	1/3
B	1	1	1/2	0	B	1/3	1/3	1/3	1/3
A	2/3	0	1/2	0	A	0	0	0	0
A	2/3	0	1	1/2	A	1/3	1/3	1/3	1/3

Table 2—Types' Expected Payoffs and Choice Probabilities in RTH's Games when $p > 1/2$ and $q > 1/4$

Hider	Expected payoff	Choice probability	Expected payoff	Choice probability	Seeker	Expected payoff	Choice probability	Expected payoff	Choice probability
	More B		Less B			More B		Less B	
L0 (Pr. *r*)					*L0* (Pr. *r*)				
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$
B	–	q	–	q	B	–	q	–	q
A	–	$1-p-q$	–	$1-p-q$	A	–	$1-p-q$	–	$1-p-q$
A	–	$p/2$	–	$p/2$	A	–	$p/2$	–	$p/2$

- More (or less) attracted to B: $p/2 < q$ ($p/2 > q$)
- L3 Seekers avoid *central A*

L2 (Pr. *t*)					*L2* (Pr. *t*)				
A	1	1/3	1/2	0	A	0	0	0	0
B	0	0	1	1/2	B	0	0	0	0
A	1	1/3	1	1/2	A	1	1	1	1
A	1	1/3	1/2	0	A	0	0	0	0
L3 (Pr. *u*)					*L3* (Pr. *u*)				
A	1	1/3	1	1/3	A	1/3	1/3	0	0
B	1	1/3	1	1/3	B	0	0	1/2	1/2
A	0	0	0	0	A	1/3	1/3	1/2	1/2
A	1	1/3	1	1/3	A	1/3	1/3	0	0
L4 (Pr. *v*)					*L4* (Pr. *v*)				
A	2/3	0	1	1/2	A	1/3	1/3	1/3	1/3
B	1	1	1/2	0	B	1/3	1/3	1/3	1/3
A	2/3	0	1/2	0	A	0	0	0	0
A	2/3	0	1	1/2	A	1/3	1/3	1/3	1/3

Hide-and-Seek Games: Explaining the stylized facts

- Given *L0* playing (p/2, q, 1-p-q, p/2),
  - *L1* Hiders choose *central A* (avoid *L0* Seekers)
  - *L1* Seekers avoid *central A* (search for *L0* Hiders)
- *L2* Hiders choose *central A* with prob. in [0,1]
- *L2* Seekers choose *central A* for sure
- *L3* Hiders avoid *central A*
- *L3* Seekers choose *central A* w/ prob. in [0,1]
- *L4* Hiders and Seekers both avoid *central A*

Hide-and-Seek Games: Explaining the stylized facts

- Heterogeneous Population (L0, L1, L2, L3, L4) = (r, s, t, u, v) with r=0, t, u large and s "not too large" can reproduce the stylized facts
- Need s<(2t+u)/3 (More B) or s< (t+u)/2 (Less B)
- estimated r = 0, s=19%, t=32%, u=24%, v=25%

Total	$p < 2q$	$p > 2q$	Total	$p < 2q$	$p > 2q$
A	$rp/2+(1-\varepsilon)[t/3+u/3]+(1-r)\varepsilon/4$	$rp/2+(1-\varepsilon)[u/3+v/2]+(1-r)\varepsilon/4$	A	$rp/2+(1-\varepsilon)[u/3+v/3]+(1-r)\varepsilon/4$	$rp/2+(1-\varepsilon)[s/2+v/3]+(1-r)\varepsilon/4$
B	$rq+(1-\varepsilon)[u/3+v]+(1-r)\varepsilon/4$	$rq+(1-\varepsilon)[t/2+u/3]+(1-r)\varepsilon/4$	B	$rq+(1-\varepsilon)[s+v/3]+(1-r)\varepsilon/4$	$rq+(1-\varepsilon)[u/2+v/3]+(1-r)\varepsilon/4$
A	$r(1-p-q)+(1-\varepsilon)[s+t/3]+(1-r)\varepsilon/4$	$r(1-p-q)+(1-\varepsilon)[s+t/2]+(1-r)\varepsilon/4$	A	$r(1-p-q)+(1-\varepsilon)[t+u/3]+(1-r)\varepsilon/4$	$r(1-p-q)+(1-\varepsilon)[t+u/2]+(1-r)\varepsilon/4$
A	$rp/2+(1-\varepsilon)[t/3+u/3]+(1-r)\varepsilon/4$	$rp/2+(1-\varepsilon)[u/3+v/2]+(1-r)\varepsilon/4$	A	$rp/2+(1-\varepsilon)[u/3+v/3]+(1-r)\varepsilon/4$	$rp/2+(1-\varepsilon)[s/2+v/3]+(1-r)\varepsilon/4$

Hide-and-Seek Games: Out of Sample Prediction

- Estimate on one treatment and predict other five treatments
  - 30 Comparisons: 6 estimations, each predict 5
- This Level-k Model with symmetric *L0* beats other models (LQRE, Nash + noise)
  - Mean Squared prediction Error (MSE) 18% lower
  - Better predictions in 20 of 30 comparisons

Hide-and-Seek Level-k Model Ported to the Joker Game

- Can Level-k Reasoning developed from the Hide-and-Seek Game predict results of other games?
  - Try O'Neil (1987)'s Joker Game
- Stylized Facts:
  - Aggregate Frequencies close MSE
  - Ace Effect (A chosen more often than 2 or 3);
    - Not captured by QRE

The Joker Game: O'Neill (1987)

	A	2	3	J	MSE	Actual	QRE
A	-5	5	5	-5	0.2	0.221	0.213
2	5	-5	5	-5	0.2	0.215	0.213
3	5	5	-5	-5	0.2	0.203	0.213
J	-5	-5	-5	5	0.4	0.362	0.360
MSE	0.2	0.2	0.2	0.4			
Actual	0.226	0.179	0.169	0.426			
QRE	0.191	0.191	0.191	0.427			

- Actual frequencies are quite close to MSE
- QRE better, but can't get the Ace effect

Hide-and-Seek Level-k Model Ported to the Joker Game

- Level-*k* model with symmetric *L0* (favor A&J)
- Choice of L0: (a (1-a-j)/2 (1-a-j)/2 j), a, j > ¼
  - "A and J, 'face' cards and end locations, are more salient than 2 and 3…"
- Higher *Lk* types BR to *L(k-1)*
  - Table A3 and A4 of CI's online appendix
- Challenge: To get the Ace Effect (without L0), we need a population of almost all L4 or L3
  - This is an empirical question, but very unlikely…

Hide-and-Seek Level-k Model Ported to the Joker Game

- Could there be no Ace Effect in the initial rounds of O'Neil's data?
  - The Level-k model predicts a Joker Effect instead!
- Crawford and Ireberri asked for O'Neil's data
  - And they found…
- Initial Choice Frequencies
  - (A, 2, 3, J) = (8%, 24%, 12%, 56%) for Player 1
  - (A, 2, 3, J) = (16%, 12%, 8%, 64%) for Player 2

Table 5. Comparison of the Leading Models in O'Neill's Game

Model	Parameter estimates	Observed or predicted choice frequencies					MSE
		Player	A	2	3	J	
Observed frequencies		1	0.0800	0.2400	0.1200	0.5600	-
(25 Player 1s, 25 Player 2s)		2	0.1600	0.1200	0.0800	0.6400	-
Equilibrium without perturbations		1	0.2000	0.2000	0.2000	0.4000	0.0120
		2	0.2000	0.2000	0.2000	0.4000	0.0200
Level-*k* with a role-symmetric	$a > 1/4$ and $j > 1/4$	1	0.0824	0.1772	0.1772	0.5631	0.0018
L0 that favors salience	$3j - a < 1, a + 2j < 1$	2	0.1640	0.1640	0.1640	0.5081	0.0066
Level-*k* with a role-symmetric	$a > 1/4$ and $j > 1/4$	1	0.0000	0.2541	0.2541	0.4919	0.0073
L0 that favors salience	$3j - a < 1, a + 2j > 1$	2	0.2720	0.0824	0.0824	0.5631	0.0050
Level-*k* with a role-symmetric	$a < 1/4$ and $j < 1/4$	1	0.4245	0.1807	0.1807	0.2142	0.0614
L0 that avoids salience		2	0.1670	0.1807	0.1807	0.4717	0.0105
Level-*k* with a role-asymmetric *L0* that favors salience for locations for which	$a_1 < 1/4, j_1 > 1/4;$ $a_2 > 1/4, j_2 < 1/4$	1	0.1804	0.2729	0.2729	0.2739	0.0291
player is a seeker and avoids it for locations for which player is a hider	$3j_1 - a_1 < 1, a_1 + 2j_1 < 1,$ $3a_2 + j_2 > 1$	2	0.1804	0.1804	0.1804	0.4589	0.0117

Conclusion

- Limit of Strategic Thinking: 2-3 steps
- Theory (for initial responses)
- Level-k Types:
  - Stahl-Wilson (GEB 1995), CGCB (ECMA 2001)
  - Costa-Gomes and Crawford (AER 2006)
  - Chen, Huang and Wang (mimeo 2010)
- Cognitive Hierarchy:
  - CHC (QJE 2004)

Applications

- *p*-Beauty Contest:
  - Costa-Gomes and Crawford (AER 2006)
  - Chen, Huang and Wang (mimeo 2010)
- MSE:
  - Hide-and-Seek: Crawford and Iriberri (AER 2007)
  - LUPI: Ostling, Wang, Chou and Camerer (2010)
- Auctions:
  - Overbidding: Crawford and Iriberri (AER 2007)
  - Repeated eBay Auctions: Wang (2006)

More Applications

- Coordination-Battle of the Sexes (Simple Market Entry Game):
  - Camerer, Ho and Chong (QJE 2004)
  - Crawford (2007)
- Pure Coordination Games:
  - Crawford, Gneezy and Rottenstreich (AER 2008)
- Pre-play Communication:
  - Crawford (AER 2003)
  - Ellingsen and Ostling (2010)

More Applications

- Strategic Information Communication:
  - Crawford (AER 2003)
  - Cai and Wang (GEB 2006)
  - Kawagoe and Takizawa (GEB 2008)
  - Wang, Spezio and Camerer (AER 2010)
  - Brown, Leveno and Camerer (mimeo?)
- Problems of Level-k:
  - Georganas, Healy, and Weber(mimeo 2010)