

Repeated Partnerships with Decreasing Returns

Tadashi Sekiguchi

(with Hajime Kobayashi and Katsunori Ohta)

Kyoto University

June 2013

ABSTRACT

We extend the model of repeated partnerships by Radner, Myerson and Maskin (1986, *Review of Economic Studies*), where the uniform inefficiency result holds and therefore public strategy folk theorem fails. Our extension maintains the assumption that shirking is a dominant stage action for each partner. But we assume that it is not efficient for all members to work, in the sense that it does not maximize their stage game payoff sum. In this environment, we provide a necessary and sufficient condition for some efficient payoff vectors to be sustained as an equilibrium when the partners are sufficiently patient. We also show that, even if the condition fails, patient partners can approximately attain some efficient payoff vectors.

These exact and approximate efficiency results imply that the uniform inefficiency result depends on the assumption that it is efficient for all members to work. Finally, we argue that our results are still consistent with failure of the folk theorem. We show examples where some feasible and individually rational payoff vector cannot be sustained, even approximately, as a public strategy equilibrium.