

Sequential Sampling Equilibrium

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Abstract :

This paper introduces an equilibrium framework based on sequential sampling in which players face strategic uncertainty over their opponents' behavior and acquire information to resolve it. Sequential sampling equilibrium delivers a disciplined model featuring an endogenous distribution of choices, beliefs, and decision times, that not only rationalizes well-known deviations from Nash equilibrium, but also makes novel predictions supported by existing data. It grounds a relationship between empirical learning and strategic sophistication, and generates stochastic choice through randomness inherent to sampling, without relying on indifference or choice mistakes. Further, it provides a rationale for Nash equilibrium when information costs vanish.