Forward Induction Reasoning versus Equilibrium Reasoning

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Abstract: In a dynamic game, forward induction reasoning requires us to give a rational explanation for the opponent's moves we have observed so far, whenever this is possible. Equilibrium reasoning, on the other hand, requires us to believe that the opponent is always correct about the beliefs we hold. In this talk I will show that in most dynamic games of interest, forward induction reasoning is simply incompatible with equilibrium reasoning. As a consequence, we should leave the equilibrium framework if we want to properly model forward induction reasoning in dynamic games.