

Forward Induction: Experimental Evidence from Two-Stage Games with Complete Information

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Abstract: Forward induction is the general notion that the sequence of decisions leading to a subgame can be interpreted as a type of communication that can rule out "unreasonable" beliefs in the subgame, including some beliefs that are consistent with the backward-induction rationality of a sequential equilibrium. Subjects participated in a sequence of two-stage experimental games with multiple sequential equilibria. Decisions are generally consistent with the equilibrium outcome that is not eliminated with forward-induction arguments, and this consistency increases with experience.

Keywords: forward induction, experiments, Nash refinements