

Boycotts and (Self-)Regulation in a Dynamic Game

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Abstract

We study a dynamic game between a seller, a buyer (or "activist"), and a regulator. The seller decides whether to produce in a profit-maximizing or socially responsible way ("self-regulate"). The buyer, benefitting from such self-regulation, decides whether to buy or not (i.e., initiate/end the "boycott"). The regulator can directly regulate production, although in a clumsy/costly way.

The equilibrium consists of three phases. First, the buyer buys and hopes for regulation or self-regulation. At some rate, however, the buyer starts the boycott. During the boycott, the buyer is again hoping for regulation or self-regulation, while the seller anticipates that, at some rate, the buyer gives up by ending the costly boycott. If that happens, we enter the third phase of the game where the only active players are the seller and the regulator.

Each phase is characterized by an equilibrium in mixed strategies. The comparative static is illuminating: If regulation is important to the buyer, it is less likely to occur. If regulation is costly to the seller, then a boycott is more likely to start and it tends to last longer. If the regulator is likely to impose regulation, then a boycott is less likely to start and, if it starts, it tends to be short-lasting. The seller, in this situation, self-regulates with a larger probability.

In sum, public politics is a strategic substitute for "private politics" such as boycotts, but a strategic complement to private politics such as self-regulation.