

Common Knowledge and Equilibria Switching ^{*}

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Abstract

We derive necessary and sufficient conditions in order for rational actors to coordinate on different equilibria in different states of the world. These conditions help us identify what kind of information structures allow for a specific type of sunspot-like equilibrium. This specific type of equilibrium sheds light on the role of common knowledge in explaining puzzling social behaviors, like pursuing or avoiding eye contact, or using innuendos. Our model can also be used to address economic phenomena such as bank-runs.

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