

Sorting and Sustaining Cooperation*

Nick Vikander

November 2010

Abstract

This paper look at selfish types and conditional cooperators working together in teams. Players knows that lay-offs will occur at a fixed future date, which creates incentives similar to those in a finitely repeated prisoners' dilemma.

The results show that the equilibrium with the most cooperation tends to be a sorting equilibrium, where players reveal their types so that conditional cooperators can identify and cooperate with one another. Changes in parameter values that in most situations would make cooperation more attractive, such as an increase in the discount factor, the fraction of conditional cooperators or the pay-off to reciprocated cooperation, can actually reduce equilibrium cooperation if they decrease an egoist's incentive to sort.

*I would like to thank my supervisor Maarten Janssen for helpful comments, as well as participants in the RES 2009 Conference, SMYE 2009, and seminar participants in Rotterdam, Amsterdam and Vienna. A previous version of this paper was entitled "The Breakdown of Morale".