Downsian Model with Asymmetric Information: Possibility of Policy Divergence

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Abstract

This paper presents a model of Downsian political competition in which voters are imperfectly informed about economic fundamentals. In this setting, parties' choices of platforms influence voters' behavior not only through voters' preferences over policies, but also through formation of their expectation on the unknown fundamentals. We show that there exist pure-strategy equilibria in this political game with asymmetric information at which the two parties' policies diverge with positive probability. This result is in contrast with the well-known median voter theorem in the classical model of Downsian competition. We also study refinement of equilibria, and identify the perfect equilibria (Selten, 1975) and the strictly perfect equilibria (Okada, 1981). The Nash equilibria with the strongest asymmetry in the parties' strategies are proved to be strictly perfect.