

Managing A Conflict*

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Abstract

Two players conflict over a pie. They have the option to voluntarily participate in conflict management. In case conflict management cannot settle the conflict, it escalates to a costly Bayesian default game. Private information is only relevant in the default game which serves as both an endogenous outside option and a screening device. We show that optimal conflict management is equivalent to optimal post-escalation belief management. We characterize the set of feasible information structures post-escalation and link the mechanism design approach of eliciting information to the information design approach of processing information. We characterize the price of information revelation to the designer and show that additional public signals only play a minor role. Using two distinct examples we show how optimal conflict management links to the underlying games: while simple lotteries call for optimal sorting, contests advocate type-independent solutions.

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