

# Endogenous Monitoring in a Partnership Game

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## **Resumo/Abstract:**

I consider a repeated game in which, due to imperfect monitoring, no collusion can be sustained. I add a self-interested monitor who commits to generating an imperfect private signal of players' actions and sends a non-verifiable public message to players. The monitor makes a take-it-or-leave-it offer to players specifying the precision of the signal generated and the amount to be paid in return. I show that provided the cost of monitoring is sufficiently low, fully collusive equilibria exist. In the set of fully collusive perfect public equilibria that maximize the monitor's payoff, players' average expected payoffs are decreasing in the discount factor. My model helps explain the puzzling nature of cartel agreements between the mafia and firms in legal industries in Italy and the United States.