

# Imperfect Monitoring and Settlement

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Extremely Preliminary; Please Do Not Circulate.

## Abstract

We analyze a settlement bargaining game, focusing on the role of imperfect monitoring about players' types in the presence of risk aversion against uncertain outcomes of hostile engagement. We characterize and compare the Divine PBE under the private monitoring regime and the public one. Our analysis reveals that publicizing a complainant's imperfect private information of a defendant's type in a pretrial settlement stage may tighten the incentive constraint for truth telling by mitigating the informational value of monitoring outcomes, resulting in reduction in the ex ante expected total welfare of players. While our model is built to analyze a pretrial settlement game in the context of trade disputes, the main results of our analysis should be applicable to any settlement bargaining game in which players have risk aversion against uncertain outcomes from failing to reach a settlement.

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