Mechanism Design with Narratives

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February 2021

Abstract

Individuals use narratives as rationales or justifications to make their claims more convincing. I provide a general framework for partial verifiability based on narratives. Narratives give many reasons and arguments. The receiver derives the message's meaning by aggregating these reasons; her private information tells her whether some potential reasons support the sender's claims. Therefore, the receiver detects misreports with positive probability. Narratives flexibly allow for different degrees of partial verifiability and allow using the revelation principle. Considering mechanism design as an example, I prove that narratives are sufficiently powerful to implement efficient trade in the canonical bilateral-trade setting.

JEL classifications: D81, D82, D86

Keywords: Narrative, Communication, Partial Verifiability, Mechanism Design, Bilateral Trade