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**Possibilistic Beliefs and Higher-Level Rationality**  
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# Possibilistic Beliefs and Higher-Level Rationality

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## 1 Quick Summary

We consider rationality and rationalizability for normal-form games of incomplete information in which the players have *possibilistic* beliefs about their opponents. In this setting, we prove that the strategies compatible with the players being level- $k$  rational coincide with the strategies surviving a natural  $k$ -step iterated elimination procedure. We view the latter strategies as the (level- $k$ ) rationalizable ones in our possibilistic setting.

Rationalizability was defined by Pearce [23] and Bernheim [12] for complete-information settings. Our iterated elimination procedure similar to that proposed by Dekel, Fudenberg, and Morris [14] in a Bayesian setting. For other iterated elimination procedures and corresponding notions of rationalizability in Bayesian settings, see Brandenburger and Dekel [9], Tan and Werlang [24], Battigalli and Siniscalchi [8], Ely and Peski [15], Weinstein and Yildiz [25], and Halpern and Pass [19].

## 2 The Epistemic Framework

### 2.1 Possibilistic Structures and Rationality Models

Given an  $n$ -player normal-form game  $\Gamma$ , let  $S_i$  be the set of pure actions of player  $i$  in  $\Gamma$  and  $S = S_1 \times \cdots \times S_n$ . To model the players' uncertainty about each other's utility and action in  $\Gamma$ , we consider a possibilistic version of Harsanyi's type structure [20].

**Definition 1.** A possibilistic structure  $\mathcal{G}$  for  $\Gamma$  is a tuple of profiles,  $\mathcal{G} = (T, u, B, \mathbf{s})$ , where for each player  $i$ ,

- $T_i$  is a finite set of  $i$ 's types;

- $u_i : S \times T \rightarrow \mathbb{R}$  is  $i$ 's utility function;
- $B_i : T_i \rightarrow 2^{T_{-i}}$  is  $i$ 's belief correspondence; and
- $s_i : T_i \rightarrow S_i$  is  $i$ 's strategy function.

A possibilistic structure does not impose any consistency requirements among the beliefs of different players. Indeed, a player may have totally wrong beliefs about another player's beliefs. For instance, in a single-good auction, player  $i$  may believe that player  $j$ 's valuation for the good is greater than 100, whereas player  $j$  may believe that player  $i$  believes that  $j$ 's valuation is less than 10. Moreover, each utility function  $u_i$  has domain  $S \times T$  rather than  $S \times T_i$ . This enables us to deal with interdependent-type settings as well.

Below we define the players' rationality, higher-level rationality and common belief of rationality, in the same way as Aumann [5].

**Definition 2.** Let  $\mathcal{G} = (T, u, B, \mathbf{s})$  be a possibilistic structure for  $\Gamma$  and  $t$  be a type profile in  $T$ . Player  $i$  is rational at  $t_i$  if for every action  $s'_i$  of  $i$ , there exists  $t'_{-i} \in B_i(t_i)$  such that

$$u_i((\mathbf{s}_i(t_i), \mathbf{s}_{-i}(t'_{-i})), (t_i, t'_{-i})) \geq u_i((s'_i, \mathbf{s}_{-i}(t'_{-i})), (t_i, t'_{-i})).$$

Player  $i$  is rational at  $t$  if he is rational at  $t_i$ .

Based on this definition we define the following events.

- Let  $RAT_i = \{t \in T \mid i \text{ is rational at } t\}$  be the event that player  $i$  is rational.
- For any event  $E \subseteq T$ , let  $\mathbf{B}_i(E) = \{t \in T \mid (t_i, t'_{-i}) \in E \forall t'_{-i} \in B_i(t_i)\}$  be the event that player  $i$  believes that  $E$  occurs.
- Let  $RAT_i^0 = T$  be the event that player  $i$  is level-0 rational (namely, irrational), and for any  $k \geq 1$ , let  $RAT_i^k = RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1})$  be the event that player  $i$  is level- $k$  rational. Clearly,  $RAT_i^1 = RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^0) = RAT_i \cap \mathbf{B}_i(T) = RAT_i \cap T = RAT_i$ . That is, being level-1 rational is equivalent to being rational.
- For any  $k \geq 0$  let  $RAT^k = \cap_i RAT_i^k$  be the event that every player is level- $k$  rational, and let  $RAT = RAT^1$  be the event that every player is rational.
- For any event  $E \subseteq T$ , let  $\mathbf{EB}^0(E) = E$ ,  $\mathbf{EB}^1(E) = \mathbf{EB}(E) = \cap_i \mathbf{B}_i(E)$  be the event that every player believes that  $E$  occurs, and  $\mathbf{EB}^k(E) = \mathbf{EB}(\mathbf{EB}^{k-1}(E))$  for any  $k \geq 2$ .
- Let  $\mathbf{CB}(RAT) = \cap_{k \geq 0} \mathbf{EB}^k(RAT)$  be the event that the players have common belief of rationality.

**Definition 3.** For any  $t \in T$  and  $k \geq 0$ , player  $i$  is level- $k$  rational at  $t$  if  $t \in RAT_i^k$ . For any  $t_i \in T_i$ , player  $i$  is level- $k$  rational at  $t_i$  if there exists  $t_{-i} \in T_{-i}$  such that  $i$  is level- $k$  rational at  $(t_i, t_{-i})$ . For any  $t \in T$ , the players have common belief of rationality at  $t$  if  $t \in \mathbf{CB}(RAT)$ .

Notice that whether player  $i$  is level- $k$  rational or not at  $t$  solely depends on  $t_i$  and player  $i$ 's belief hierarchy at  $t_i$ , and does not depend on  $t_{-i}$  at all. Thus it is immediately clear that

*Player  $i$  is level- $k$  rational at  $t_i$  if and only if  
for all  $t_{-i} \in T_{-i}$  player  $i$  is level- $k$  rational at  $(t_i, t_{-i})$ .*

## 2.2 Basic Properties of Our Model

The following six properties (proved in Section 4) help understanding our model.

1. For any player  $i$ ,  $RAT_i = \mathbf{B}_i(RAT_i)$ .

That is, a rational player believes that he is rational.

2. For all players  $i$  and all  $E \subseteq T$ ,  $\mathbf{B}_i(E) = \mathbf{B}_i(\mathbf{B}_i(E))$ .

That is, if a player believes (the occurrence of) event  $E$ , then he believes that he believes  $E$ .

3. For any player  $i$  and any  $k \geq 0$ ,  $RAT_i^k = \mathbf{B}_i(RAT_i^k)$ .

That is, a level- $k$  rational player believes that he is level- $k$  rational.

4. For any player  $i$  and any  $k \geq 0$ ,  $RAT_i^{k+1} \subseteq RAT_i^k$ .

The following two properties provide alternative definitions for level- $k$  rationality and common belief of rationality.

5. For any player  $i$  and any  $k \geq 1$ ,  $RAT_i^k = RAT_i \cap \mathbf{B}_i(\bigcap_j RAT_j^{k-1})$ .

That is, for  $k \geq 1$ , being level- $k$  rational is equivalent to being rational and believing that every player is level- $(k - 1)$  rational.

6.  $\mathbf{CB}(RAT) = \bigcap_{k \geq 0} \bigcap_{i \in [n]} RAT_i^k$ .

## 2.3 Type Structures and Iterated Elimination of Strictly Dominated Actions

In many scenarios the players' beliefs about each other's (payoff) types are given exogenously, and they reason about each other's actions based on their beliefs about types. To model this kind of information structure and reasoning procedure we define *type structures*: a type structure  $\mathcal{T}$  for  $\Gamma$  is a tuple of profiles,  $\mathcal{T} = (T, u, B)$ , where  $T, u, B$  are as defined in a possibilistic structure for  $\Gamma$ . Thus a type structure can be considered as a possibilistic structure with the strategy function removed.

**Definition 4.** A possibilistic structure  $\mathcal{G} = (T, u, B, \mathbf{s})$  for  $\Gamma$  is consistent with a type structure  $\mathcal{T}' = (T', u', B')$  for  $\Gamma$  if there exists a profile of functions  $\psi$  with  $\psi_i : T_i \rightarrow T'_i \forall i$  such that,

- $\forall i$  and  $\forall t \in T$ ,  $u_i(\cdot; t) = u'_i(\cdot; \psi(t))$ ; and
- $\forall i$  and  $\forall t_i \in T_i$ ,  $\psi_{-i}(B_i(t_i)) = B'_i(\psi_i(t_i))$ .

We refer to such a  $\psi$  as a consistency mapping.

The notion of consistency captures that, introducing actions into the picture does not cause the players to change their beliefs about *types*, but causes them to form additional beliefs about *actions*.

Illustratively, both possibilistic structures and type structures can be represented by directed graphs, with nodes corresponding to the players' types and edges corresponding to their beliefs. The only difference is that in a possibilistic structure each node is also associated with an action.

**Example** Consider a revised version of the BoS game, where player 1 has a unique type  $t_1$  and player 2 has two types  $t_2$  and  $t'_2$  —whether he wants to meet or avoid player 1. The players’ utilities are specified in Figure 1.

	B	S
B	2,1	0,0
S	0,0	1,2

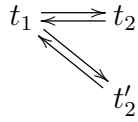
(a) Utilities under type profile  $(t_1, t_2)$

	B	S
B	2,0	0,2
S	0,1	1,0

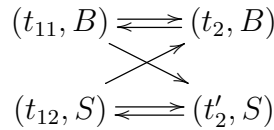
(b) Utilities under type profile  $(t_1, t'_2)$

Figure 1: A revised BoS game

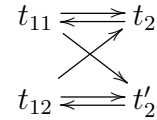
Figure 2a provides an elementary type structure  $\mathcal{T}'$  for the revised BoS game, where player 1 believes that player 2’s type can be either  $t_2$  or  $t'_2$  and player 2 believes that player 1’s (unique) type is  $t_1$ . Figure 2b provides an elementary possibilistic structure  $\mathcal{G}$  consistent with  $\mathcal{T}'$ . Here player 1’s two types  $t_{11}$  and  $t_{12}$  induce the same utility function but different actions for him, and under both types player 1 believes that player 2 will use action  $B$  under type  $t_2$  and  $S$  under  $t'_2$ . The type structure  $\mathcal{T}$  obtained from  $\mathcal{G}$  by removing the actions is then illustrated in Figure 2c. It is immediate to see that the consistency mapping  $\psi = (\psi_1, \psi_2)$  is such that  $\psi_1$  maps both  $t_{11}$  and  $t_{12}$  to  $t_1$ , and  $\psi_2$  maps  $t_2$  to  $t_2$  and  $t'_2$  to  $t'_2$ . Indeed, under such mapping the utilities are preserved and “the belief correspondence and  $\psi$  commute.”



(a) Type structure  $\mathcal{T}'$



(b) Possibilistic structure  $\mathcal{G}$



(c) Type structure  $\mathcal{T}$

Figure 2: A type structure and a consistent possibilistic structure

We now define rationality for type structures.

**Definition 5.** Given a type structure  $\mathcal{T} = (T, u, B)$  for  $\Gamma$ , for any player  $i$ , type  $t_i \in T_i$ , action  $s_i$  and integer  $k \geq 0$ ,  $s_i$  is consistent with level- $k$  rationality for  $t_i$  if, there exists a possibilistic structure  $\mathcal{G} = (T', u', B', \mathbf{s})$  and a type  $t'_i \in T'_i$ , such that  $\mathcal{G}$  is consistent with  $\mathcal{T}$  under a consistency mapping  $\psi$ ,  $\psi_i(t'_i) = t_i$ ,  $\mathbf{s}_i(t'_i) = s_i$  and  $i$  is level- $k$  rational at  $t'_i$ .

Action  $s_i$  is consistent with common belief of rationality for  $t_i$  if, there exists a possibilistic structure  $\mathcal{G} = (T', u', B', \mathbf{s})$  and a type profile  $t' \in T'$ , such that  $\mathcal{G}$  is consistent with  $\mathcal{T}$  under a consistency mapping  $\psi$ ,  $\psi_i(t'_i) = t_i$ ,  $\mathbf{s}_i(t'_i) = s_i$  and the players have common belief of rationality at  $t'$ .

Notice that our concept of consistency with level- $k$  rationality or common belief of rationality is called rationalizability in other studies, see [8]. Next we define an iterated elimination procedure for refining the players’ actions, and use it to characterize actions that are consistent with level- $k$  rationality or common belief of rationality.

**Definition 6.** Let  $\mathcal{T} = (T, u, B)$  be a type structure for  $\Gamma$ . For each player  $i$ , type  $t_i \in T_i$  and integer  $k \geq 0$ , we define  $NSD_i^k(t_i)$ , the set of actions surviving  $k$ -round elimination of strictly dominated actions for  $t_i$ , inductively as follows:

- $NSD_i^0(t_i) = S_i$ .
- For each  $k \geq 1$  and each  $s_i \in NSD_i^{k-1}(t_i)$ ,  $s_i \in NSD_i^k(t_i)$  if there does not exist an alternative action  $s'_i \in NSD_i^{k-1}(t_i)$  such that  $\forall t_{-i} \in B_i(t_i)$  and  $\forall s_{-i} \in NSD_{-i}^{k-1}(t_{-i})$ ,

$$u_i((s'_i, s_{-i}), (t_i, t_{-i})) > u_i((s_i, s_{-i}), (t_i, t_{-i})),$$

where  $NSD_{-i}^{k-1}(t_{-i}) = \times_{j \neq i} NSD_j^{k-1}(t_j)$ .

In the definition for  $NSD_i^k(t_i)$ , if the required action  $s'_i$  does exist, we say that  $s_i$  is strictly dominated (by  $s'_i$ ) for  $t_i$  over level- $(k-1)$  surviving actions. It is easy to see that defining  $NSD_i^k(t_i)$  by eliminating strictly dominated actions from  $NSD_i^{k-1}(t_i)$  is the same as defining it by eliminating strictly dominated actions from  $S_i$ :

- For each  $k \geq 1$  and each  $s_i \in S_i$ ,  $s_i \in NSD_i^k(t_i)$  if and only if there does not exist an alternative action  $s'_i \in S_i$  such that  $\forall t_{-i} \in B_i(t_i)$  and  $\forall s_{-i} \in NSD_{-i}^{k-1}(t_{-i})$ ,

$$u_i((s'_i, s_{-i}), (t_i, t_{-i})) > u_i((s_i, s_{-i}), (t_i, t_{-i})).$$

Given player  $i$ 's knowledge about  $\mathcal{T}$ , he can iteratively compute  $NSD_i^k(t_i)$  for any  $t_i$  and  $k$ . Since the game  $\Gamma$  is finite, the elimination procedure ends at some  $K$  when no action is strictly dominated over level- $(K-1)$  surviving actions. Letting  $NSD_i(t_i) = \cap_{k \geq 0} NSD_i^k(t_i)$ , we have  $NSD_i(t_i) = NSD_i^K(t_i) \neq \emptyset$ . We say that an action  $s_i$  survives iterated elimination of strictly dominated actions for  $t_i$  if  $s_i \in NSD_i(t_i)$ . Following [8] we refer to  $NSD_i^k(t_i)$  as the set of *level- $k$  rationalizable* actions for  $t_i$ , and to  $NSD_i(t_i)$  as the set of *rationalizable* actions for  $t_i$ .

An immediate consequence of Definition 6 is the following lemma, stated without proof.

**Lemma 1.** Action  $s_i \in S_i$  survives  $k$ -round elimination of strictly dominated actions for  $t_i$  if and only if there exists  $B'_i \subseteq B_i(t_i)$  and  $Z_{-i}(t_{-i}) \subseteq NSD_{-i}^{k-1}(t_{-i})$  for each  $t_{-i} \in B'_i$ , such that for each  $s'_i \in S_i$  there exists  $t_{-i} \in B'_i$  and  $s_{-i} \in Z_{-i}(t_{-i})$  with

$$u_i((s_i, s_{-i}), (t_i, t_{-i})) \geq u_i((s'_i, s_{-i}), (t_i, t_{-i})).$$

Intuitively,  $s_i$  survives  $k$ -round elimination if, given  $i$ 's belief that other players' types are among (some subset of)  $B_i(t_i)$  and they use (some subset of) actions that survive  $(k-1)$ -round elimination, no other action *according to  $i$ 's belief* can lead to higher utility than what he gets by using  $s_i$ . Lemma 1 is a possibilistic analog of Pearce's lemma [23] which, in probabilistic models, relates best responses and rationalizability to strict dominance. Note that whereas in the possibilistic case (which is what we consider) the proof is trivial, Pearce's original lemma for the probabilistic case requires additional work.

### 3 Characterizing Level- $k$ Rationality and Common Belief of Rationality

**Theorem 1.** Given a type structure  $\mathcal{T} = (T, u, B)$  for  $\Gamma$ , for any player  $i$ , type  $t_i$ , action  $s_i$  and integer  $k \geq 0$ ,  $s_i$  is consistent with level- $k$  rationality for  $t_i$  if and only if  $s_i \in NSD_i^k(t_i)$ .

*Proof.* We first prove the “only if” direction. Assuming  $s_i$  is consistent with level- $k$  rationality for  $t_i$ , we prove  $s_i \in NSD_i^k(t_i)$  by induction on  $k$ . For  $k = 0$ , the property trivially holds since  $NSD_i^0(t_i) = S_i$  by definition.

For  $k > 0$ , by Definition 5 there exists a possibilistic structure  $\mathcal{G} = (T', u', B', \mathbf{s})$  and a type  $t'_i \in T'_i$ , such that  $\mathcal{G}$  is consistent with  $\mathcal{T}$  under a consistency mapping  $\psi$ ,  $\psi_i(t'_i) = t_i$ ,  $\mathbf{s}_i(t'_i) = s_i$  and  $i$  is level- $k$  rational at  $t'_i$ .

By Definition 3 and Claim 2.1, player  $i$  being level- $k$  rational at  $t'_i$  implies: (a)  $i$  is rational at  $t'_i$ ; and (b) for each type subprofile  $t'_{-i} \in B'_i(t'_i)$  we have  $(t'_i, t'_{-i}) \in \cap_{j \neq i} RAT_j^{k-1}$ . According to (a) and Definition 2, for each action  $s'_i \in S_i$  there exists  $t'_{-i} \in B'_i(t'_i)$  such that

$$u'_i((s_i, \mathbf{s}_{-i}(t'_{-i})), (t'_i, t'_{-i})) \geq u'_i((s'_i, \mathbf{s}_{-i}(t'_{-i})), (t'_i, t'_{-i})). \quad (1)$$

According to (b), for each  $t'_{-i} \in B'_i(t'_i)$  and each  $j \neq i$ , player  $j$  is level- $(k-1)$  rational at  $t'_j$ . By Definition 5,  $\mathbf{s}_j(t'_j)$  is consistent with level- $(k-1)$  rationality for  $\psi_j(t'_j)$  and thus, by the induction hypothesis,

$$\mathbf{s}_j(t'_j) \in NSD_j^{k-1}(\psi_j(t'_j)). \quad (2)$$

For each  $t_{-i} \in B_i(t_i)$ , let  $Z_{-i}(t_{-i}) = \mathbf{s}_{-i}(\psi_{-i}^{-1}(t_{-i}))$ . Because  $\psi_{-i}(B'_i(t'_i)) = B_i(t_i)$ ,  $Z_{-i}(t_{-i}) \neq \emptyset$ . By Equation 2,

$$Z_{-i}(t_{-i}) \subseteq NSD_{-i}^{k-1}(t_{-i}).$$

For each  $s'_i \in S_i$ , let  $t'_{-i} \in B'_i(t'_i)$  be such that Equation 1 holds,  $t_{-i} = \psi_{-i}(t'_{-i})$  and  $s_{-i} = \mathbf{s}_{-i}(t'_{-i})$ . Accordingly,  $s_{-i} \in Z_{-i}(t_{-i})$ . Since  $u_i(\cdot; (t_i, t_{-i})) = u'_i(\cdot; (t'_i, t'_{-i}))$ , Equation 1 implies

$$u_i((s_i, s_{-i}), (t_i, t_{-i})) \geq u_i((s'_i, s_{-i}), (t_i, t_{-i})).$$

By Lemma 1 we have  $s_i \in NSD_i^k(t_i)$ , concluding the proof of the “only if” direction.

Now we prove the “if” direction. By definition, proving this direction is equivalent to proving that, if  $s_i \in NSD_i^k(t_i)$  then there exists a possibilistic structure  $\mathcal{G} = (T', u', B', \mathbf{s})$  for  $\Gamma$  and a type  $t'_i \in T'_i$  such that,  $\mathcal{G}$  is consistent with  $\mathcal{T}$  under a consistency mapping  $\psi$ ,  $\psi_i(t'_i) = t_i$ ,  $\mathbf{s}_i(t'_i) = s_i$  and  $i$  is level- $k$  rational at  $t'_i$ . Notice that  $\mathcal{G}$ ,  $t'_i$  and  $\psi$  may depend on  $k$ ,  $i$ ,  $t_i$  and  $s_i$ .

In fact, we shall prove a stronger statement. Namely, for each  $k$ , there exists a *universal* possibilistic structure  $\mathcal{G} = (T', u', B', \mathbf{s})$  for  $\Gamma$ , consistent with  $\mathcal{T}$  under a consistency mapping  $\psi$ , such that for *every* player  $i$ , type  $t_i \in T_i$ , action  $s_i$  and non-negative integer  $k' \leq k$ ,

if  $s_i \in NSD_i^{k'}(t_i)$  then there exists a type  $t'_i \in T'_i$  such that

$$\psi_i(t'_i) = t_i, \quad \mathbf{s}_i(t'_i) = s_i \quad \text{and} \quad i \text{ is level-}k' \text{ rational at } t'_i, \quad (3)$$

which implies that  $s_i$  is consistent with level- $k'$  rationality for  $t'_i$ .

We define  $\mathcal{G}$  as follows: for each player  $i$ ,

- $T'_i = \{(t_i, k', s_i) : t_i \in T_i, k' \in \{0, \dots, k\}, s_i \in NSD_i^{k'}(t_i)\}$ ;
- for each type profile  $t' \in T'$ , letting  $t \in T$  be the type profile obtained by projecting each  $t'_j$  to its first component,  $u'_i(\cdot; t') = u_i(\cdot; t)$ ;
- for each type  $t'_i = (t_i, k', s_i)$ ,  $\mathbf{s}_i(t'_i) = s_i$ ; and

- for each type  $t'_i = (t_i, k', s_i)$  and type profile  $t'_{-i} \in T'_{-i}$ ,  $t'_{-i} \in B'_i(t'_i)$  if and only if there exists  $t_{-i} \in B_i(t_i)$  and  $s_{-i} \in NSD_{-i}^{\max\{k'-1, 0\}}(t_{-i})$  such that  $t'_j = (t_j, \max\{k' - 1, 0\}, s_j)$  for all  $j \neq i$ .

It is easy to check that  $\mathcal{G}$  is consistent with  $\mathcal{T}$  under the consistency mapping  $\psi$  where  $\psi_i(t_i, k', s_i) = t_i$  for each player  $i$  and type  $(t_i, k', s_i) \in T'_i$ .

We now prove by induction on  $k'$  that for any  $i, t_i \in T_i$  and  $s_i \in NSD_i^{k'}(t_i)$ , player  $i$  is level- $k'$  rational at  $t'_i = (t_i, k', s_i)$ . For  $k' = 0$ , since  $RAT_i^0 = T$  by definition, it trivially holds that player  $i$  is level-0 rational at  $t'_i$ .

For  $k' > 0$ , for any  $t'_{-i} = (t_j, k' - 1, s_j)_{j \neq i} \in B'_i(t'_i)$ , by construction we have  $t_{-i} \in B_i(t_i)$  and  $s_{-i} \in NSD_{-i}^{k'-1}(t_{-i})$ . By the hypothesis induction, for any player  $j \neq i$ ,  $j$  is level- $(k' - 1)$  rational at  $t'_j$  and thus at  $(t'_j, t'_{-i})$ . Therefore

$$(t'_i, t'_{-i}) \in \cap_{j \neq i} RAT_j^{k'-1}.$$

Since this is true for any  $t'_{-i} \in B'_i(t'_i)$ , we have

$$(t'_i, t'_{-i}) \in \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k'-1})$$

for any  $t'_{-i} \in B'_i(t'_i)$ , as again whether player  $i$  believes some event or not only depends on  $t'_i$  and not  $t'_{-i}$ .

Since  $s_i \in NSD_i^{k'}(t_i)$ , by definition for any  $s'_i \in NSD_i^{k'-1}(t_i)$ , there exists  $t_{-i} \in B_i(t_i)$  and  $s_{-i} \in NSD_{-i}^{k'-1}(t_{-i})$  such that  $u_i((s_i, s_{-i}), (t_i, t_{-i})) \geq u_i((s'_i, s_{-i}), (t_i, t_{-i}))$ . Since any strategy  $s'_i$  that does not survive  $(k' - 1)$ -round elimination for  $t_i$  is strictly dominated by some action in  $NSD_i^{k'-1}(t_i)$  for  $t_i$  over level- $(k' - 1)$  surviving actions, we further have that for any  $s'_i \in S_i$ , there exists  $t_{-i} \in B_i(t_i)$  and  $s_{-i} \in NSD_{-i}^{k'-1}(t_{-i})$  such that

$$u_i((s_i, s_{-i}), (t_i, t_{-i})) \geq u_i((s'_i, s_{-i}), (t_i, t_{-i})).$$

Letting  $t'_{-i} = (t_j, k' - 1, s_j)_{j \neq i}$ , we have  $t'_{-i} \in B'_i(t'_i)$ ,  $\psi(t'_i, t'_{-i}) = (t_i, t_{-i})$ ,  $\mathbf{s}_i(t'_i) = s_i$  and  $\mathbf{s}_{-i}(t'_{-i}) = s_{-i}$ . Thus

$$u'_i((\mathbf{s}_i(t'_i), \mathbf{s}_{-i}(t'_{-i})), (t'_i, t'_{-i})) \geq u'_i((s'_i, \mathbf{s}_{-i}(t'_{-i})), (t'_i, t'_{-i})).$$

Accordingly, player  $i$  is rational at  $t'_i$  and  $(t'_i, t'_{-i}) \in RAT_i$  for any  $t'_{-i} \in B'_i(t'_i)$ . By definition,  $(t'_i, t'_{-i}) \in RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k'-1})$  for any  $t'_{-i} \in B'_i(t'_i)$ , and thus  $i$  is level- $k'$  rational at  $t'_i$ . This concludes the induction step and the proof of Statement (3). Therefore the “if” direction holds, concluding the proof of Theorem 1. ■

Similarly, we characterize common belief of rationality in our model by the following theorem, the proof of which is omitted.

**Theorem 2.** *Given a type structure  $\mathcal{T} = (T, u, B)$  for  $\Gamma$ , for any player  $i$ , type  $t_i$  and action  $s_i$ ,  $s_i$  is consistent with common belief of rationality for  $t_i$  if and only if  $s_i \in NSD_i(t_i)$ .*



## 4 Proofs of the Basic Properties of Our Model

**Property 1.** For any player  $i$ ,  $RAT_i = \mathbf{B}_i(RAT_i)$ .

*Proof.* By definition, for any  $t \in RAT_i$ , player  $i$  is rational at  $t_i$ . Thus for any  $t'_{-i} \in B_i(t_i)$ ,  $i$  is rational at  $(t_i, t'_{-i})$ , implying  $t \in \mathbf{B}_i(RAT_i)$ .

On the other hand, for any  $t \in \mathbf{B}_i(RAT_i)$ , for any  $t'_{-i} \in B_i(t_i)$ ,  $i$  is rational at  $(t_i, t'_{-i})$ , which implies that  $i$  is rational at  $t_i$ . Thus  $i$  is rational at  $t$ , namely,  $t \in RAT_i$ . ■

**Property 2.** For any player  $i$  and any  $E \subseteq T$ ,  $\mathbf{B}_i(E) = \mathbf{B}_i(\mathbf{B}_i(E))$ .

*Proof.* By definition, for any  $t \in \mathbf{B}_i(E)$ , for any  $t'_{-i} \in B_i(t_i)$ , we have  $(t_i, t'_{-i}) \in E$ . Thus for any  $t''_{-i} \in B_i(t_i)$ ,  $(t_i, t''_{-i})$  is such that for any  $t'_{-i} \in B_i(t_i)$ ,  $(t_i, t'_{-i}) \in E$ . Accordingly,  $(t_i, t''_{-i}) \in \mathbf{B}_i(E)$ , which implies  $(t_i, t_{-i}) \in \mathbf{B}_i(\mathbf{B}_i(E))$ .

On the other hand, for any  $t \in \mathbf{B}_i(\mathbf{B}_i(E))$ , for any  $t'_{-i} \in B_i(t_i)$ , we have  $(t_i, t'_{-i}) \in \mathbf{B}_i(E)$ , which implies that for any  $t''_{-i} \in B_i(t_i)$ ,  $(t_i, t''_{-i}) \in E$ . Accordingly,  $(t_i, t_{-i}) \in \mathbf{B}_i(E)$ . ■

**Property 3.** For any player  $i$  and any  $k \geq 0$ ,  $RAT_i^k = \mathbf{B}_i(RAT_i^k)$ .

*Proof.* For  $k = 0$ ,  $RAT_i^0 = T$  and  $\mathbf{B}_i(RAT_i^0) = \mathbf{B}_i(T) = T$ , as desired. For  $k = 1$ , since  $RAT_i^1 = RAT_i$ , the desired equality follows from Claim 1.

For any  $k \geq 2$ ,

$$\begin{aligned} RAT_i^k &= RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1}) = \mathbf{B}_i(RAT_i) \cap \mathbf{B}_i(\mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1})) \\ &= \mathbf{B}_i(RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1})) = \mathbf{B}_i(RAT_i^k) \end{aligned}$$

as desired, where the first equality is by definition and the second is by Claims 1 and 2. ■

**Property 4.** For any player  $i$  and any  $k \geq 0$ ,  $RAT_i^{k+1} \subseteq RAT_i^k$ .

*Proof.* By induction on  $k$ . For  $k = 0$ ,  $RAT_i^1 \subseteq T = RAT_i^0$ . For  $k > 0$ , by the induction hypothesis we have  $RAT_j^k \subseteq RAT_j^{k-1}$  for each  $j$ , thus  $\mathbf{B}_i(\cap_{j \neq i} RAT_j^k) \subseteq \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1})$ . Accordingly,  $RAT_i^{k+1} = RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^k) \subseteq RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1}) = RAT_i^k$ , as desired. ■

**Property 2.2.** For any player  $i$  and any  $k \geq 1$ ,  $RAT_i^k = RAT_i \cap \mathbf{B}_i(\cap_j RAT_j^{k-1})$ .

*Proof.* For  $k = 1$  we have  $RAT_i^1 = RAT_i = RAT_i \cap T = RAT_i \cap \mathbf{B}_i(T) = RAT_i \cap \mathbf{B}_i(\cap_j RAT_j^0)$ , as desired. For  $k \geq 2$ , by the claims above we have

$$\begin{aligned} RAT_i^k &= RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1}) = RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} (RAT_j^{k-1} \cap RAT_j^{k-2})) \\ &= RAT_i \cap \mathbf{B}_i((\cap_{j \neq i} RAT_j^{k-2}) \cap (\cap_{j \neq i} RAT_j^{k-1})) \\ &= RAT_i \cap (RAT_i \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-2})) \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1}) \\ &= RAT_i \cap RAT_i^{k-1} \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1}) = RAT_i \cap \mathbf{B}_i(RAT_i^{k-1}) \cap \mathbf{B}_i(\cap_{j \neq i} RAT_j^{k-1}) \\ &= RAT_i \cap \mathbf{B}_i(RAT_i^{k-1} \cap (\cap_{j \neq i} RAT_j^{k-1})) = RAT_i \cap \mathbf{B}_i(\cap_j RAT_j^{k-1}), \end{aligned}$$

where the second equality is by Claim 4 and the sixth is by Claim 3. ■

**Property 2.2.**  $\mathbf{CB}(RAT) = \cap_{k \geq 0} \cap_{i \in [n]} RAT_i^k$ .

*Proof.* We show by induction that for any  $k \geq 1$ ,  $\cap_i RAT_i^k = \mathbf{EB}^{k-1}(RAT)$ . For  $k = 1$ ,  $\cap_i RAT_i^1 = RAT^1 = RAT = \mathbf{EB}^0(RAT)$  as desired. For  $k > 1$ ,

$$\begin{aligned} \cap_i RAT_i^k &= \cap_i (RAT_i \cap \mathbf{B}_i(\cap_j RAT_j^{k-1})) = \cap_i (\mathbf{B}_i(RAT_i) \cap \mathbf{B}_i(\cap_j RAT_j^{k-1})) \\ &= \cap_i (\mathbf{B}_i((RAT_i^1 \cap RAT_i^{k-1}) \cap (\cap_{j \neq i} RAT_j^{k-1}))) \\ &= \cap_i \mathbf{B}_i(RAT_i^{k-1} \cap (\cap_{j \neq i} RAT_j^{k-1})) = \cap_i \mathbf{B}_i(\cap_j RAT_j^{k-1}) \\ &= \mathbf{EB}(\cap_j RAT_j^{k-1}) = \mathbf{EB}(\mathbf{EB}^{k-2}(RAT)) = \mathbf{EB}^{k-1}(RAT), \end{aligned}$$

where the first equality is by Claim 2.2, the second by Claim 1, the fourth by Claim 4, and the seventh by the induction hypothesis. Since  $\cap_i RAT_i^0 = T$ , we have

$$\cap_{k \geq 0} \cap_i RAT_i^k = \cap_{k \geq 1} \cap_i RAT_i^k = \cap_{k \geq 0} \mathbf{EB}^k(RAT) = \mathbf{CB}(RAT),$$

as desired. ■

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