Something on the lighter side from Epsilon Theory today, as summer winds downs here in the last week of August. Most of us have seen videos galore of the ALS “ice bucket challenge”, and I thought it might be interesting to recast a classic game theory construct – The Prisoner’s Dilemma – in ice bucket terms. So I enlisted my four daughters to be prisoners and wardens with the following scenario.

If both prisoners choose a green card, I’ll donate $100 in each prisoner’s name to ALS research. If one prisoner chooses green but the other prisoner chooses red, I’ll donate $250 in the name of the red-choosing prisoner but $0 for the green-choosing prisoner, and a warden will dump an ice bucket on the head of the green-choosing prisoner. If both prisoners choose a red card, I’ll donate $50 in each prisoner’s name, and both wardens will dump an ice bucket on her prisoner.

Both prisoners know the payoffs, but they can’t see each other and can’t communicate with each other. In 2x2 matrix form (see “Through the Looking Glass” for another example), the game looks like this:

As with all PD games, joint cooperation (2 green cards) is a much better outcome for both players than joint defection (2 red cards), but the stable equilibrium as marked by the blue oval is joint defection, with half as much money donated to ALS research and a bucket of ice water on your head to boot.

The results? Well, see for yourself in the video below!

http://www.salientpartners.com/epsilontheory/emails/An_Ice_Bucket_Dilemma.html
To subscribe to Epsilon Theory:

- Sign up here: www.salientpartners.com/epsilontheory/subscribe
- OR send an email bhunt@salientpartners.com with your name, email address, and company affiliation (optional).

There is no charge to subscribe to Epsilon Theory and your email address will not be shared with anyone.

Follow me on Twitter: @EpsilonTheory

To unsubscribe to Epsilon Theory:

- Send an email to bhunt@salientpartners.com with “unsubscribe” in the subject line.

DISCLOSURES

This commentary is being provided to you by individual personnel of Salient Partners, L.P. and affiliates (“Salient”) and is provided as general information only and should not be taken as investment advice. The opinions expressed in these materials represent the personal views of the author(s) and do not necessarily represent the opinions of Salient. It is not investment research or a research recommendation, as it does not constitute substantive research or analysis. Any action that you take as a result of information contained in this document is ultimately your responsibility. Salient will not accept liability for any loss or damage, including without limitation to any loss of profit, which may arise directly or indirectly from use of or reliance on such information. Consult your investment advisor before making any investment decisions. It must be noted, that no one can accurately predict the future of the market with certainty or guarantee future investment performance. Past performance is not a guarantee of future results.

Statements in this communication are forward-looking statements. The forward-looking statements and other views expressed herein are as of the date of this publication. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and there is no guarantee that any predictions will come to pass. The views expressed herein are subject to change at any time, due to numerous market and other factors. Salient disclaims any obligation to update publicly or revise any forward-looking statements or views expressed herein.

This information is neither an offer to sell nor a solicitation of any offer to buy any securities. Any offering or solicitation will be made only to eligible investors and pursuant to any applicable Private Placement Memorandum and other governing documents, all of which must be read in their entirety.

Salient commentary has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Salient recommends that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor. The appropriateness of a particular investment or strategy will depend on an investor’s individual circumstances and objectives.