

How I Learn to Love Being Dynamically Inconsistent

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Being dynamically inconsistent is mighty inconvenient. You cannot choose whatever plan of actions you like, but instead have to limit yourself to plans that your future self is willing to carry out. You procrastinate, and sometimes even preproperate. You have to give up flexibility, and are sometimes taken advantage by health clubs. In this paper, I shall point out one benefit of being dynamically inconsistent, namely that it helps us to more credibly prove our hidden types to an untrusting party. The intuition is very simple: my future self, being the same me, share all of my secrets. If my future self does not share my preference, thanks to dynamic inconsistency, then he can be made a formidable enemy of mine, standing ready to betray me and expose any lie I may tell other parties. By leveraging on his incentives to betray me and expose any lie I may tell, I can hence more credibly convince other parties my true type, reducing certain contractual inefficiency that may otherwise arise from asymmetric information.