May 28, 2018

RE: Cheap talk by two senders in the presence of network externalities

Dear Editor,

Attached please find our revision of the aforementioned paper, which we resubmit to your journal. We provide our point-by-point responses to the referee report below.

Responses to the second referee's comments

Major comments

1. Literature on cheap talk with transparent motives: We cited the papers by Chakraborty and Harbaugh (2010) and Lipnowski and Ravid (2018) in Footnote 3 and p. 6. We also summarized the differences of our paper from theirs in p.6. Thanks for informing us of the important papers.

2. Off-the-equilibrium belief in the noiseless information case: We agree that the equilibrium we characterized is not robust to even small noise. See our discussions in Footnote 11 and discussions given right after Proposition 3. Also, we discussed the possibility of eliminating the implausible equilibrium by a stronger refined concept based on trembling, which is something like the trembling-hand perfect equilibrium. See Footnote 12 in p.11.

3. Off-the-equilibrium belief in the noisy information case: The referee says "I fail to see how the beliefs described in the strategy in point satisfy the wPBE. The authors do not provide any justification for the strategy assumed." We provide our justifications in the last paragraph of p.8 (2-III), Footnote 8 and Footnote 13 in this revision. To summarize, we should distinguish the belief on theta from beliefs on v1 and v2. Since R is not informed of three values, v1, v2 and theta, he must form three beliefs about v1, v2 and theta, but the beliefs that one can infer from the consistency of wPBE are only about v1 and v2, not about theta because the value of theta is not known to senders, either, so that it is <u>not a type</u> of senders. All R can do is to obtain an estimator for theta from m1 and m2, but the definition of wPBE does not impose any requirement for the estimator. It could be any weighted average of m1 and m2. Any weighted average including m1 and m2 is an unbiased estimator. Our belief b(m) is a summary statistic that

can be obtained after two separate processes, inference process and estimation process based on the inference. Our belief is what we obtained from our requirement for the estimator to be unbiased, not directly from the consistency condition of wPBE.

Minor comments

1. Alternative way of introducing noise into the model: We mentioned the alternative modelling and cited Battaglini (2002). See Footnote 5.
2. Is the way that multiple speakers help novel in the presence of transparent motives? Is it different than how it helps in standard cheap talk? etc. For the first question, yes, we think so, because other papers about cheap talk with transparent motives are not involved with multiple senders nor crosschecking strategy. For the second question, yes, we think so again, because strategies that induce full separation in standard multiple cheap talk models (without network externalities) usually rely on the boundedness of the type set and no noise, while our strategy does not. See Footnote 10.

Thank you very much for helpful comments.
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