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Making sense of game theoretic models

Abstract:
It is shown how game theoretic models can be used to isolate agents' incentives in strategic interactions by imposing a speci c causal structure. Using causal graphs, we argue that this makes the underlying causal dynamics amenable to systematic policy interventions. The fields of market and mechanism design make essential use of this fact, and we take their success to confirm our account of game theoretic models. Moreover, it is argued that the fact that game theoretic models underdetermine choice behavior does not hinder their success; nor does the fact that they may be "false", or very coarse-grained.