

# Tolerance and Behavioral Diversity

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## ABSTRACT

Globalization gives us a huge pool of potential transaction partners, but past behaviors of new partners are not perfectly known, making it difficult to punish defectors. The literature advocates trust-building/gradual cooperation. We found new equilibria, in which homogeneous players have varied lengths of the “tolerant phase” where they never terminate a partnership regardless of its history. Afterwards, many players cooperate as long as the partner does. Hence tolerance of behavioral diversity is an equilibrium phenomenon, and behavioral diversity can motivate tolerance and cooperation. Behavioral diversity is not necessarily due to player heterogeneity, nor less efficient than trust-building equilibria.

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