

LOCAL AGENTS' INTERACTION AS A SIGNAL GAME: LOCAL FIRMS, LOCAL GOVERNMENTS AND INVESTMENT PROJECTS.

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ABSTRACT

This paper examines the strategies of cooperation and conflict that two dominant local agents adopt in order to maximize their payoffs. The methodological tool that is introduced is a signal game that informs the actors about potential profits and losses. Two actors participate in the game, namely local government with a high level of competences in the field of local entrepreneurship and a local firm that aims to run a new investment project in the region.

Cooperation between two actors emerges into a crucial determinant of local development. The sharing of profits that are generated by commonly accepted investment projects and the outputs of spill over effects shapes the strategies of actors and impact on their decision making as well. The key element is the integration of individual interests into the functions of local economic circuit.

The game is developed using signals that guarantees payoffs and counterbalance risk and uncertainty. The local firm has two options: to run the project into the region of its headquarters or to invest in the neighboring region. The crucial factor of its decision making is the institutional capacity of local government to cooperate. Further the basic motive of local government to cooperate is the gain that receives via the implementation of investment.

This demonstrates that in the equilibrium of the game, cooperation is a necessary condition for local development, whereas conflict generates economic stagnation. As a sequence: (a) Local actors should adopt strategies that associate their utility with the prosperity of the region, (b) Strategies of cooperation reduce the transaction cost for both actors as the sharing of profits establish the prerequisites for local growth, (c) Policy implications of local government should focus in the modernization of its function in order to attract investment and consecutively to improve local welfare.

Key Words: Cooperation of Local Agents, Signal Game, Local Development; JEL Classification: R11, C71.

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