

# ”Money Or Reputation” - A Dynamic Model of Blackmail<sup>1</sup>

Paper under revision

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## **Abstract**

This paper develops a dynamic model of blackmail, where a piece of information an agent prefers to keep private may facilitate blackmail when another agent, namely a blackmailer, threatens to reveal that information. The crucial feature of the blackmail game is the commitment problem from the blackmailer's side. The blackmailer can not commit not to come back in future to demand more despite the payments received in the past. The paper outlines conditions under which successful extortion may arise, and shows that there is a blackmail equilibrium, which gives a precise prediction how much money the blackmailer is able to extort from the victim. It is also shown that the blackmailer receives a blackmail premium that compensates the blackmailer for not taking money from the victim and revealing information anyway.

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