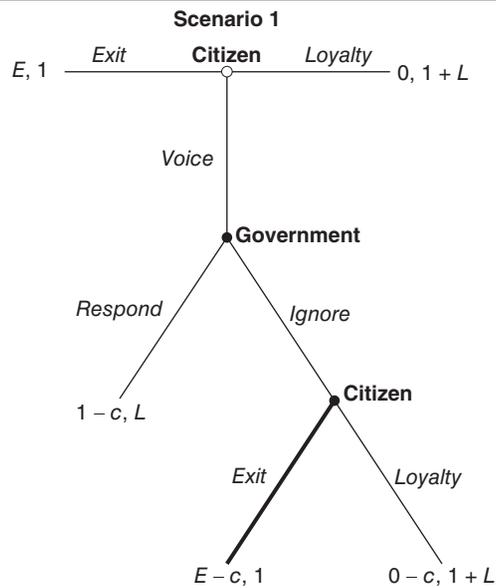


FIGURE 3.3 ■ The EVL Theory When the Citizen has a Credible Exit Threat ($E > 0$): Step 1 of Backward Induction



Note: E = citizen's exit payoff; 1 = value of benefit taken from the citizen by the government; L = government's value from having a loyal citizen who doesn't exit; c = cost of using voice. It's assumed that $c, L > 0$; $E < 1 - c$; $E > 0$.