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As the Going Gets Tough or Easy in Bargaining

(joint work with Simon Gaechter, and Arno Riedl)

Abstract

Same economic actors periodically bargain over the division of resources. Labor-management, budget allocation, and contract negotiations are some examples. For situations that involve (i) periodic negotiations (e.g., contract negotiations), (ii) multiple, competing reference points justified by equity, precedents, or equality, and (iii) exogenously/stochastically varying stakes, we ask the following questions: (a) Should economic actors bargain over the whole pie or should they bargain over the amount of change with respect to the old pie size? Is there a systematic difference in bargaining outcomes? (i.e., does narrow or large bracketing make a difference?) and (b) Do subjective entitlements and bargaining outcomes differ when negotiations are made over losses rather than gains? In order to answer these questions, conduct a laboratory experiment with a 2x2, between subjects design, where the size of a bargaining pie stochastically changes. We observe systematic effects of our manipulations on subjective entitlements and agreements. Most interestingly, narrow bracketing leads to agreements even more asymmetric than what the induced reference point implies; and it favors those players who were already favored by the reference point present in the environment. We see that the treatment manipulation first influences bargainers' subjective entitlements, and then transmitted to subjects' first proposals, and then naturally influences agreements. Importantly, the exposure to narrow-large bracketing is not identical across subjects in the same pair.