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## Upcoming Seminars

### **Monday, 21.1.2019**

#### **Departmental Seminar**

13.30-14.30

AWI 00.010

Emin Karagözoğlu, Bilkent University Ankara

(invited by Christoph Vanberg)

"As the Going Gets Tough or Easy in Bargaining"

### **Wednesday, 23.1.2019**

#### **Macro & Econometrics Seminar**

13.30-14.30

AWI 01.030

Zeno Enders

"Firm expectations and economic activity"

### Departmental Seminar

Emin Karagözoğlu

"As the Going Gets Tough or Easy in Bargaining"\*

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.

\*with Simon Gächter and Arno Riedl

### Macro & Econometrics Seminar

Zeno Enders

"Firm expectations and economic activity"

This paper we assess empirically the role of expectations for firms' production and price-setting decisions. Our analysis is based on data for German manufacturing firms included in the EBDC Business Expectations Panel. To identify the causal effect of firms' expectations on their behavior, we match firms on the basis of fundamentals and compare decisions of firms that have the same fundamentals but differ in their views about the future. We find that optimistic (pessimistic) firms are about 17 percent more likely to raise (lower) production relative to neutral firms. Similarly, we find that optimistic (pessimistic) firms are more likely to raise (lower) prices. In the second step of our analysis we construct forecast errors and match, in turn, correctly and incorrectly optimistic to neutral firms. It turns out that incorrect optimists and pessimists do behave differently from untreated firms in the impact period. In a third step, we quantify the contribution of correct and incorrect expectations to aggregate fluctuations.

## Talks and Research Visits

**Zeno Enders** presented the paper "Firm expectations and economic activity" in the research seminar of the University of Bamberg, January 15.

**Christoph Vanberg** gave a talk on "Multilateral Bargaining" at *The Centre for Behavioural and Experimental Social Science*, University of East Anglia, January 15.

## New Publications

Julia Müller and Christiane Schwieren: "Big Five Personality Factors in the Trust Game", *Journal of Business Economics*, forthcoming.

Axel Dreher, Andreas Fuchs and Sarah Langlotz: "The effects of foreign aid on refugee flows", *European Economic Review*, forthcoming.

**Editorial deadline for issue 04/2019 of the newsletter:  
Wednesday, January 23, 2019, 12 p.m.  
newsletter@awi.uni-heidelberg.de**

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please contact the address above.