



Course: Bargaining, Arbitration, Mediation (20812)
Term: Summer term 2013
Examiner: PD Dr. Annette Kirstein
Date: 01.08.2013

Final Examination

First name:

Last name:

Matriculation number: _____
(up to 9 digits)

Available time: 60 minutes

Maximum points: 60 points

Permitted aid(s):

- Non-programmable pocket calculator *without data storage and communication capabilities*

General information:

1. There are 3 exercises all together. Please answer all of them.
2. Points given for correct solutions correspond to the processing time assigned (in minutes).
3. **Return *all* the paper you received or used (without exception).**

GOOD LUCK!

Exercise 1 (20 minutes):

Please indicate on your answer sheet whether the following statements are true (T) or false (F). Each correct answer yields 2 points, incorrect answers or no answer result in 0 points.

- 1) An arbiter who is employed after a break-down of negotiations can impose a settlement that is final, legally binding, and legally enforceable.
- 2) In an Edgeworth-box, if the initial endowment is located on the contract curve there is no room for Pareto-improvement.
- 3) According to the Nash bargaining solution, the outcome of a player, ceteris paribus, is increasing in the other party's threat point.
- 4) A player's risk attitude has no influence on the slope of the Pareto frontier in Nash bargaining.
- 5) Axiomatic bargaining theory allows for predicting the outcome of negotiations without specifying the bargaining procedure.
- 6) The "confirmation trap" in decision making describes the fact that people tend to ignore data that support or confirm their decision.
- 7) The distributive aspect of negotiations focuses on a "fixed-pie" scenario, where one person gains at the expense of the other person.
- 8) The illusion of superiority in bargaining situations describes the fact that people believe they have more control over outcomes than they really do.
- 9) Firm Y wants to buy company X. Y would like to pay \$10 and considers X to be worth \$20. X does not know Y's valuation of X. X would like to sell to Y for \$25. What Y does not know is that X would rather sell at any price of at least \$15 than keep the company.
 - a) X's BATNA amounts to \$15 and Y's BATNA amounts to \$20.
 - b) The bargaining zone ranges from \$10 to \$25.

Exercise 2 (20 minutes):

Consider the following 4-round bargaining game.

Players A and B are assumed to be rational, risk-neutral, and payoff-maximizing. They bargain over how to divide a money amount of 50 MU (monetary units). They alternate in making offers, and player A makes the first proposal. Each proposal can be accepted or rejected by the other player. In case of acceptance, the money is divided according to the corresponding offer. Each rejection reduces the money amount at stake by 10 MU.

- a) Who is the last mover, i.e., which player makes the last offer? What amount of money can the last mover capture in his last round?
- b) Draw the complete game tree and solve the game for the subgame-perfect equilibrium (SPE). Explicitly state the SPE.
- c) Does the last mover's subgame-perfect equilibrium share differ from what he can capture in his last round? Why or why not?
- d) Is this game a Rubinstein-game or a Stahl-game? Why?
- e)
 - i) If A's outside option value amounted to $T_A > 0$ in the event of no agreement after round 4 (B's outside option remains unchanged), how would $T_A > 0$ influence the parties' subgame-perfect equilibrium shares (you do not have to calculate the exact solution).
 - ii) If a fifth round was added to the game, how would this fifth round change the SPE shares of the two parties? Why would there be a change in SPE shares?

Exercise 3 (20 minutes):

- 1) Briefly discuss four common mistakes real people can make in bargaining situations.
- 2) What are the main drawbacks of Conventional Arbitration with an impartial arbiter?