

2898

Klausur: Bargaining, Arbitration, Mediation

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Exercise 1 (20 minutes):

Consider the following 5-round bargaining game (**all shares must be integers**):

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.
- c) Is this game a Rubinstein-game or a Stahl-game? Why?
- d) Now, B can employ a rational, risk-neutral and payoff-maximizing agent to act on B's behalf in the fifth round. He writes a payment contract for his agent. What is the maximum amount of MUs B is willing to spend on the agent's payment? How will the contract look like?

Exercise 2 (20 minutes):

Players 1 and 2 are assumed to be rational, risk-neutral, and payoff-maximizing. They are to divide an amount of money of 100 MU (monetary units). They bargain according to the following rule: Player 1 divides the cake, and player 2 chooses one piece while player 1 obtains the remainder. If they fail to reach an agreement, then both receive nothing.

- a) Derive the equilibrium of the game.
- b) How would an amount of 100 MUs be shared among two rational, risk-neutral, and payoff-maximizing players according to the SNBS? Draw the bargaining set, the Pareto frontier, and the SNBS.
- c) Compare your result under b) to the result obtained in a), and **briefly** discuss the so-called "Nash axioms".

Exercise 3 (10 minutes):

Briefly discuss three common mistakes real people make in bargaining situations.

Exercise 4 (10 minutes):

What are the main drawbacks of conventional arbitration, provided that the arbiter is impartial? What type of arbitration can solve these problems (briefly discuss the matter)?