

## ABSTRACT

Conventional Arbitration, in which an arbitrator is free to choose any settlement in a two-party dispute, is compared with several alternative arbitration procedures:

1. Final-Offer Arbitration (FOA) permits each party to submit a so-called final offer; the arbitrator is restricted to choosing one or the other final offer and cannot split the difference.

2. Combined Arbitration uses FOA if the arbitrator's preferred position is between the two final offers; if the arbitrator's position is outside these offers, Conventional Arbitration is used.

3. Two-Stage and Multistage FOA. Two-Stage FOA allows the initial loser under FOA to respond with a counteroffer; if the arbitrator prefers the counteroffer, the settlement is the average of this counteroffer and the initial winner's offer; otherwise, the initial winner's offer is chosen. Multistage FOA is not limited to two stages but allows for a sequence of offers and counteroffers until one side wins twice in a row, in which case its last offer becomes the settlement.

A game-theoretic analysis of optimal strategies shows that Combined Arbitration, Two-Stage FOA, and Multistage FOA lead to the greatest convergence but not the same settlement. FOA (and a variation called Bonus FOA) do not encourage convergence and, as a consequence, foster more serious bargaining before they are used. The use of FOA in major league baseball and public employee disputes is discussed, and recommendations are offered about the use of the other procedures, depending on the criteria that are deemed most important to satisfy.