Abstract

We consider two person bargaining games with interdependent preferences, with and without bilateral incomplete information. We show that, both in the ultimatum game and in the two-stage alternating-offers game, our equilibrium predictions are fully consistent with all robust experimental regularities which falsify the standard game theoretic model: occurrence of disagreements, disadvantageous counteroffers, and outcomes that come close to the equal split of the pie. In the context of infinite horizon bargaining, the implications of the model pertaining to fair outcomes is even stronger. In particular, the Coase property in our case generates "almost" 50-50 splits of the pie, almost immediately. The present approach thus provides a positive theory for the frequently encountered phenomenon of the 50-50 division of the gains from trade. We also show that the potential interdependence of preferences entails the emergence of "near-fair" divisions in bargaining settlements.

Keywords: Ultimatum bargaining, fair division, Coase conjecture

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