



Economic Theory, Decision Theory and Experimental Economics
Seminar

Commitment in Dynamic Bargaining

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Abstract

The paper studies a dynamic model of bilateral bargaining in which negotiators can make strategic commitments to durable offers. Commitments decay stochastically. If the game has finite horizon, agreement is always delayed and may not be reached. The probability of eventual agreement increases monotonically in the horizon and approaches 1 in the limit. In the infinite horizon case, there is a single asymmetric equilibrium agreement which can be achieved either with delay in a stationary equilibrium or without delay in a non-stationary equilibrium. The terms of the agreement become more equal as players are more patient and as commitments decay more quickly.