Assignment #3

READ:

In addition to discussing the rationale for subjective expected utility on pages 68-73, Chapter 5 of Thompson “Rational Behavior: A Prescriptive Approach” discusses joint (more than one person) rationality and describes Nash’s Arbitration Scheme, a prescriptive scheme for deciding what is fair and who should get how much. Study the overheads in your readings. In addition to laying out the assumptions underlying Nash’s Arbitration Scheme much as Thompson does, they show in more detail than the text how Nash’s scheme works.

PREPARE:

(1) You will play the Price-Quantity Game in class with an assigned partner. You will be assigned a role as either a buyer or a seller and will receive the corresponding price-quantity payoff table in class. In this negotiation, you communicate solely by ACTION, not by words. Communicate during negotiations only by writing down your price or your quantity and showing it to your counterpart. No other words or other expressions exchanged. Follow the rules!

Be prepared to discuss what, in your judgment, constitutes a "FAIR" settlement.

Questions to think about:

1. If you tried to “signal” your counterpart that she needs to modify her offer in your favor or you would stick with a choice unfavorable to both, did she respond positively?
2. What constitutes an “efficient” agreement on price and quantity?
3. The tension between CLAIMING value and CREATING value is high here. How did you manage it?
4. If you were to share information about your payoffs with your negotiating counterpart, what principles would you cite to support what you view as a "fair" agreement on price and quantity?
5. If you are asked to arbitrate a fair agreement between buyer and seller based on your knowledge of the payoff structure of both parties, what scheme would you suggest?