

EFFICIENCY VERSUS EQUALITY IN BARGAINING

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Abstract

We consider how the outcome of bargaining varies with changes in the trade-off between equality, efficiency, and total-earnings maximization. We observe that subjects avoid an equal-earnings outcome if it is Pareto inefficient; a large proportion of bargaining pairs avoid an equal and Pareto efficient outcome in favor of one giving unequal and total-earnings maximizing payoffs, and this proportion increases when unequal outcomes imply larger earnings to one of the players, even though this also implies higher inequality; finally, we document a compromise effect that violates the independence of irrelevant alternatives condition. (JEL: C70, C72, C92)

Keywords: bargaining, efficiency, equality, communication, experiment, independence of irrelevant alternatives.

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