EXPLAINING GIFT-EXCHANGE – THE LIMITS OF GOOD INTENTIONS

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Abstract
This paper explores the limitations of intention-based social preferences as an explanation of gift-exchange between a firm and a worker. In a framework with one self-interested and one reciprocal player, gift-giving never arises in equilibrium. Instead, any equilibrium in a large class of multi-stage games must involve mutually unkind behavior of both players. Besides gift-exchange, this class of games also includes moral hazard models and the rotten kid framework. Even though equilibrium behavior may appear positively reciprocal in some of these games, the self-interested player never benefits from reciprocity. We discuss the relation of these results to the theoretical and empirical literature on gift-exchange in employment relations. (JEL: C72, D03, D86, J01)

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