

Niccolò Lomys

Presentation Title

Learning while Bargaining: Experimentation and Coasean Dynamics

Abstract

I study dynamic bargaining with one-sided incomplete information when superior outside options may arrive during negotiations. Gains from trade are ex ante uncertain: in a good-match type of market, no outside option exists; in a bad-match type of market, superior outside options stochastically arrive for either or both parties. The two parties begin their negotiations with the same belief about the market type. Arrivals are public and learning about the market type is common. One party, the seller, makes price offers at every instant to the other party, the buyer. The seller has no commitment power and the buyer is privately informed about his own valuation. This gives rise to rich bargaining dynamics. In equilibrium, there is either an initial period with no trade or trade starts with a burst. Afterward, the seller screens out buyer types one by one as uncertainty about the market type unravels. Delay is always present, but it is inefficient only if valuations are interdependent. Whether prices increase or decrease over time depends on which party has a higher option value of waiting to learn. When the seller can clear the market in finite time at a positive price, prices are higher than the competitive price. This, however, need not be at odds with efficiency.

Keywords

Bargaining; Durable Goods; Timing of Transactions; Coase Conjecture; Learning; Experimentation; Dynamic Games.

Affiliation

Toulouse School of Economics