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Topics in Economic Theory, Stephan Laueremann, Summer 2022

Bargaining and Markets
—Tentative Syllabus—

Aim. The goal of the course is to get you started writing your research papers.

Content. Bilateral bargaining is a nucleus for many natural trading scenarios. We will study models of bargaining between two partners in isolation and when embedded in larger market contexts. The models that we discuss and study are some of the most basic models in microeconomic theory, providing a wide set of applications that range from labor markets, housing markets, to the markets for over-the-counter assets.

Our starting point is the classic bilateral alternating bargaining model with two players and symmetric information (Rubinstein, 1982). We expand the classic setting in four directions:

1. Bargaining with outside options: Multilateral bargaining and competition (stationary networks and search)
2. One-sided asymmetric information: Coase Conjecture
3. Two-sided asymmetric information: War of Attrition
4. Bargaining with adverse selection

Student Contributions

- Active participation, contribution of discussion questions for classes
- Term paper, with interactive work towards a proposal (presentation of research proposal and peer-feedback)

Literature

The classic material can be found in

Osborne, M. J., & Rubinstein, A. (1990). Bargaining and markets. Academic Press Limited.

Background for bargaining with asymmetric information is in

Fudenberg, D., & Tirole, J. (1991). Game theory. MIT press. Chapters 10 and 4.5.

A recent application are over-the-counter asset markets:

Duffie, D. (2011). Dark Markets. Princeton University Press.

The following references are indicative of the type of research that will be discussed, I am likely to substitute at least some articles and add others.

1. Multilateral bargaining and competition on exogeneous stationary networks

- (a) **Manea, M. (2011). Bargaining in stationary networks. American Economic Review, 101(5), 2042-80.**
- (b) Rubinstein, A., & Wolinsky, A. (1985). Equilibrium in a market with sequential bargaining. *Econometrica: Journal of the Econometric Society*, 1133-1150.
- (c) Burdett, K., & Coles, M. G. (1997). Marriage and class. *The Quarterly Journal of Economics*, 112(1), 141-168.
- (d) Smith, L. (2006). The marriage model with search frictions. *Journal of political Economy*, 114(6), 1124-1144.
- (e) Shimer, R., & Smith, L. (2000). Assortative matching and search. *Econometrica*, 68(2), 343-369.

2. Multilateral bargaining and competition with endogenous stocks

- (a) **Gale, D. (1987). Limit theorems for markets with sequential bargaining. Journal of Economic Theory, 43(1), 20-54.**
- (b) Lauermann, S., & Nöldeke, G. (2014). Stable marriages and search frictions. *Journal of Economic Theory*, 151, 163-195.
- (c) Elliott, M., & Nava, F. (2019). Decentralized bargaining in matching markets: Efficient stationary equilibria and the core. *Theoretical Economics*, 14(1), 211-251.

3. One-sided asymmetric information: Coase Conjecture

- (a) **Gul, F., Sonnenschein, H., & Wilson, R. (1986). Foundations of dynamic monopoly and the Coase conjecture. Journal of Economic Theory, 39(1), 155-190.**
- (b) Board, S., & Pycia, M. (2014). Outside options and the failure of the Coase conjecture. *American Economic Review*, 104(2), 656-71.
- (c) Lauermann, S. (2012). Asymmetric information in bilateral trade and in markets: An inversion result. *Journal of Economic Theory*, 147(5), 1969-1997.
- (d) Liu, Q., Mierendorff, K., Shi, X., & Zhong, W. (2019). Auctions with limited commitment. *American Economic Review*, 109(3), 876-910.

- (e) Hörner, J., & Samuelson, L. (2011). Managing strategic buyers. *Journal of Political Economy*, 119(3), 379-425.
 - (f) Lauermann, S., & Wolinsky, A. (2021). Auctions with Frictions
4. Two-sided asymmetric information: War of Attrition
- (a) **Abreu, D., & Gul, F. (2000). Bargaining and reputation. *Econometrica*, 68(1), 85-117.**
 - (b) Wolinsky, A. (1990). Information revelation in a market with pairwise meetings. *Econometrica: Journal of the Econometric Society*, 1-23.
 - (c) Fanning, J. (2021). Mediation in reputational bargaining. *American Economic Review*, 111(8), 2444-72.
 - (d) Backus, M., Blake, T., Larsen, B., & Tadelis, S. (2020). Sequential bargaining in the field: Evidence from millions of online bargaining interactions. *The Quarterly Journal of Economics*, 135(3), 1319-1361.
5. Bargaining with adverse selection
- (a) **Deneckere, R., & Liang, M. Y. (2006). Bargaining with interdependent values. *Econometrica*, 74(5), 1309-1364.**
 - (b) Guerrieri, V., & Shimer, R. (2014). Dynamic adverse selection: A theory of illiquidity, fire sales, and flight to quality. *American Economic Review*, 104(7), 1875-1908.
 - (c) Lauermann, S., & Wolinsky, A. (2016). Search with adverse selection. *Econometrica*, 84(1), 243-315.
 - (d) Kaya, A., & Kim, K. (2018). Trading dynamics with private buyer signals in the market for lemons. *The Review of Economic Studies*, 85(4), 2318-2352.
 - (e) Daley, B., & Green, B. (2012). Waiting for News in the Market for Lemons. *Econometrica*, 80(4), 1433-1504.
 - (f) Daley, B., & Green, B. (2020). Bargaining and news. *American Economic Review*, 110(2), 428-74.