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Virginia Commonwealth University

BARGAINING THEORY

A Comparative Model of Bargaining: Theory and Evidence, by Gary E. Bolton (Pennsylvania State University)

Recent laboratory studies of alternating-offer bargaining find many empirical regularities that are inconsistent with the standard theory. In this paper, I postulate that bargainers behave as if they are negotiating over both "absolute" and "relative" money. Absolute money is measured by cash, relative money by the disparity between absolute measures. The resulting model is consistent with previously observed regularities. New experiments provide further support as well as evidence against several alternative explanations. Also finding some support is an extension which predicts that the equilibrium of the standard theory will be observed when bargaining is done in a "tournament" setting. *The American Economic Review*, Vol. 81, No. 5 (December 1991), pp. 1096-1136. (Reprinted with permission of *The American Economic Review*).

Moral Hazard and Verifiability: The Effects of Renegotiation in Agency, by Benjamin E. Hermalin and Michael L. Katz (University of California, Berkeley)

We examine the effects of renegotiation in an agency relationship. We show how renegotiation affects: (i) the set of actions the principal can induce the agent to take; and (ii) the cost of implementing a given action. We show that, when the principal receives an unverifiable signal of the agent's action, renegotiation can improve welfare. This result stands in contrast to Fudenberg and Tirole's (1990) finding that renegotiation lowers welfare when the principal receives no signal about the agent's action prior to renegotiation. *Econometrica*, Vol. 59, No. 6 (November 1991), pp. 1735-53. (Reprinted with permission of *Econometrica*).