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BARGAINING THEORY

Priority Setting in Health Care: An Axiomatic Bargaining Approach, by Derek Clark

How axiomatic bargaining theory can be used to analyze different rules for dividing the health care budget between two patients is examined. This approach allows an explicit statement of the assumptions underlying the division rules and also provides a general characterization of the consequences of using these rules when the opportunity set changes. *Journal of Health Economics*, August 1995, 14(3): 345-360. (Reprinted with permission of ABI/Inform, copyright UMI.)

RISK PERCEPTION AND ECONOMIC BEHAVIOR

Forming Beliefs About Adjudicated Outcomes: Perceptions of Risk and Reservation Values, by Linda Babcock, Henry S. Farber, Cynthia Fobian, and Eldar Shafir

In negotiations where impasse is resolved via a dispute resolution mechanism (like the courts or arbitration), beliefs about a potential adjudicated outcome are central in determining the bargaining environment. Research investigates how negotiators involved in a hypothetical product liability case use the information encompassed in damage awards from previous, similar cases in forming beliefs about their own case. How the parameters of the distribution of previous outcomes affect the expected adjudicated outcome and the parties' reservation values are examined. It is found that the range of previous outcomes has no significant effect on subjects' reservation values, but that the variance does have a systematic effect, particularly on plaintiffs' behavior. It is found that, for the plaintiffs' attorneys, the reservation value is influenced negatively by the standard deviation of the distribution of previous adjudicated outcomes. However, for defendants' lawyers, there is no

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