

Bargaining and Time Preferences: An Experimental Study

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Abstract:

Several experimental studies in the literature investigated how time preferences govern bargaining outcomes in the canonical, infinite-horizon alternating-offers bargaining model of (Rubinstein, 1982, *Econometrica*) but the evidence is mixed. We revisit the problem with a novel experimental design in which bargaining game payoffs are paid over a long period of time with different payment windows (weekly or monthly) exogenously assigned to each subject. Using this effective discounting procedure, we test theoretical predictions presented 1) in the absence of dynamically inconsistent time-preferences (Rubinstein, 1982, *Econometrica*) and 2) in the presence of such time-inconsistent preferences (Schweighofer-Kodritsch, 2018, *Econometrica*). We find unambiguous experimental support for several major theoretical predictions. In all treatments, a vast majority of the agreement was reached with no or minor delay, and with a significant and substantial first-mover advantage. In the treatments without any delayed (1 week) payment schedule, the bargainer with a larger effective discount factor received a smaller share. In the treatment in which the immediate agreement was made impossible by the payment delay introduced to both bargainers, however, the difference in the agreed share between the bargainers with different effective discount factors became less significant statistically and less substantial in magnitude. These results suggest that bargainers' discounting function is quite flat after the first round.