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Earned Entitlements and Risky Investments in Bargaining: An Experiment

Abstract:

In various organizational settings, a team member is given the authority to make an investment decision that influences the value of the jointly produced surplus. We experimentally investigate the effect of asymmetric status, investment decisions, and the outcome of these decisions on bargaining behavior. Agents' initial contributions to the surplus are determined by their performances in a real-effort task. Three treatments vary how the final surplus value is determined. We observe that when low-contributors take risk they are punished/rewarded for failure/success whereas high-contributors receive a fixed share independent of the outcome. Analysis of the bargaining process provides further insights.