

# The chicken type and incompatible demands in bargaining

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## Abstract

We study whether the possibility of the chicken type in bargaining causes incompatible demands and also investigate who benefits from such a possibility. The game starts with two players making demands. If the demands are not compatible, the chicken type of a player yields to the demand of the opponent immediately unless it gives her less than her reservation utility. Neither when the initial demands are compatible nor when there is no chicken type, the game moves to costly bargaining, in which the shares at the settlement is (approximately) determined by the lower demand. What we show is that the ordering at the demand stage matters substantially. When the players make their demands sequentially and only the second mover may be the chicken type, the equilibrium outcome is identical to the one without the possibility of the chicken type, in which the players make the just compatible demands at the beginning. In other cases, the players' demands become incompatible. In those cases, the player whose opponent may be the chicken type benefits from such possibility and, interestingly, if the player with the possibility of the chicken type turns out not to be, she may obtain more than what she receives in the case without the possibility of the chicken type.

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