

Information Aggregation in Bargaining

Makoto Hanazono*
Nagoya University

Yasutora Watanabe†
Northwestern University

January, 2012

Abstract

We consider information aggregation in a bilateral bargaining model. Players receive private signals on the stochastic and common-value size of the pie. Immediate agreement is not necessarily efficient depending on the size of the pie, hence information aggregation is crucial for efficiency. A randomly chosen proposer can make offer not only to signal his information but also to elicit receiver's information for agreement. Contrary to complete information cases, offering a share cannot be equivalent to offering money for claiming the entire pie, due to asymmetric information on the size of the pie x . We focus on divisible pie without transfers and indivisible pie with transfers. In the case of divisible pie without transfers, efficient outcome cannot be attained in equilibrium if the discount factor is not so high and the accuracy of information is high (but not perfect). In the case of indivisible pie with transfers, efficient outcome can always be attained in equilibrium if the transfer can take continuous values, whereas the attainability is limited if the transfer is discrete.

*School of Economics, Nagoya University. Furouchi, Chikusa, Nagoya 464-8601, Japan. Email: hanazono@soec.nagoya-u.ac.jp

†Department of Management and Strategy, Kellogg School of Management, Northwestern University, 2001 Sheridan Road, Evanston, IL 60208. Email: y-watanabe@kellogg.northwestern.edu