

PARADOXICAL STRATEGIC BEHAVIOR IN NEGOTIATION

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Abstract

It is paradoxical that successful agreements are usually achieved through severe negotiations, not through easy compromises. In this presentation, we will find the rationality of this phenomenon by introducing a dynamic model of negotiation based on Game Theory.

The model analysed in this presentation is based on a Principal-Agent model developed by Iida (1994) in the context of Two-Level Games. Analytical and numerical extension of the model enables us to trace the strategic behaviours in negotiations.

Main results of the simulations are following:

1. When each negotiator is uncertain about the preference of its counterpart, he/she has an incentive to misrepresent his/her preference as intransigent. The degree of misrepresentation increases in accordance with the increase of the probability to achieve an agreement.

2. Strategic behaviours in negotiations make the agreement inefficient (Pareto inferior), which is an example of Prisoners' Dilemma. But the Pareto inferiority diminishes through re-negotiations together with the presentations of preferences approach to the truth.