Behavioral Finance

When Is Bargaining Successful? Negotiated Division of Tournament Prizes

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Working paper

High-stakes poker players often negotiate the distribution among a small number of finalists rather than playing through until only one player remains. This setting is ideal for studying bargaining: the stakes are substantial, there are no restrictions on the negotiations or the terms of a deal, outside options are clearly defined, there are no agency conflicts, and there is little private information.

The authors find that, even in this setting, risk-reducing deals often are not completed or even proposed. As expected, players are more likely to negotiate when the gains to trade are large and when the coordination costs are lower. Surprisingly, the success of a proposal depends on who makes it, but initiating a proposal does not affect the proposing player's payoff in a completed deal.

The paper also documents differences between two-player deals and deals with three or more players.

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