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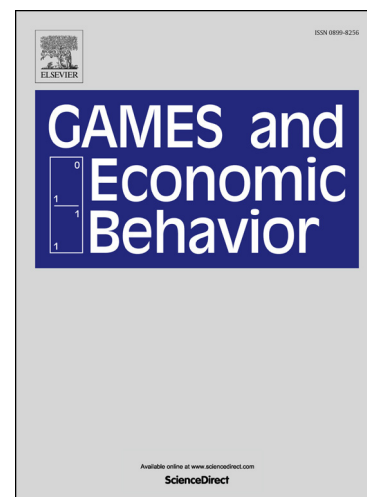
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AT-WILL RELATIONSHIPS: HOW AN OPTION TO WALK AWAY AFFECTS COOPERATION AND EFFICIENCY

ALISTAIR J. WILSON AND HONG WU

ABSTRACT. We theoretically and experimentally examine the effects from adding a simple, empirically relevant action to a repeated partnership, the option to walk away. Manipulating both the value of the outside option, and its relative distribution among the partners, we examine the behavior of human subjects in a repeated prisoners' dilemma. In particular, we examine the degree of cooperation and the form of punishments used. Our findings indicate that cooperation rates are broadly unaffected by the value of the common outside option, but that the selection of supporting punishments—in-relationship defections or walking-away—are dictated by individual rationality. In contrast to the symmetric results, when outside options for partners are asymmetric we find stark selection effects over cooperation, with the potential for very high and very low efficiency, dependent on the precise division rule.

1. INTRODUCTION

Dissolving a relationship is a familiar, easy-to-understand dynamic response, where the threat of a cessation of future interaction can be used to incentivize cooperation. It is clearly a force in many ongoing relationships of interest to economists: Workers quit firms that treat them badly; firms terminate workers that are unproductive. Couples petition for divorce if their marriages become unhappy. Consumers take away their business after a bad experience; firms refuse service to problem customer (expelling students, denying policy renewals). But in these examples participants also have access to and make use of in-relationship punishments: Workers strike or slow down; firms demote workers or withhold bonuses. Couples argue but eventually reconcile. Businesses win back customers with steep discounts after a complaint, while problem customers can pay more to atone (a donation to the school, temporarily higher premiums). In environments where mistakes or bad outcomes are inevitable despite the best efforts of all involved in-relationship punishments can be preferable, allowing for the possibility of forgiveness and a return to efficient cooperation where leaving the relationship does not.

Whether or not dissolution is preferable to in-relationship punishment for the individual depends on many factors: *What is the in-relationship punishment's expected value and is recoordination on the efficient outcome possible?* That is, what is the value to remaining in

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