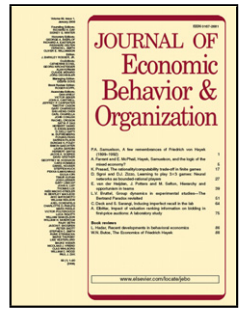
Accepted Manuscript



Title: An Alternating-Offers Model of Multilateral Negotiations

Author: Charles J. Thomas

PII: S0167-2681(17)30308-6
DOI: https://doi.org/doi:10.1016/j.jebo.2017.11.004
Reference: JEBO 4186

To appear in: *Journal of Economic Behavior & Organization*

Received date: 9-1-2017
Revised date: 10-10-2017
Accepted date: 9-11-2017

Please cite this article as: Charles J. Thomas, An Alternating-Offers Model of Multilateral Negotiations, *<![CDATA[Journal of Economic Behavior and Organization]]>* (2017), https://doi.org/10.1016/j.jebo.2017.11.004

An Alternating-Offers Model of Multilateral Negotiations*

Charles J. Thomas
Economic Science Institute & Argyros School of Business and Economics
Chapman University

October 9, 2017

Abstract

I develop a model of the multilateral negotiations that are frequently observed when one party wishes to trade with one of several others offering potentially different amounts of surplus to be split. The model's intuitively sensible equilibrium outcomes differ qualitatively from those in other models of these negotiations. I demonstrate one application of the model that provides empirical predictions about how the choice of transacting via negotiations or auctions is affected by factors including the number of trading partners, uncertainty when making the choice, and costly participation in the trading process. More generally the model provides a tractable foundation for analyzing strategic problems in settings featuring multilateral negotiations, including investment, product design, mergers, and hold-up.

1 Introduction

Bilateral negotiations play an important role in economic theory and practice, but negotiations often are multilateral in nature. For example, in a procurement setting a firm or government might negotiate to purchase from one of several suppliers whose products differ on dimensions such as quality or goodness-of-fit, such as Walgreen's selection of AmerisourceBergen over Cardinal Health to provide drug-wholesaling services to the massive drugstore chain.[1] Likewise, a takeover contest might involve multiple potential acquirers who differ in their synergies or opportunity costs from completing the transaction, such as the battle for control of Dell, Inc. amongst founder Michael Dell, Blackstone Group LP, and investor Carl Icahn.[2] A high-end job candidate might have several

*Email: charles.j.thomas.phd@gmail.com. For their generosity in inviting me to be an Affiliated Research Scientist, I thank Chapman University's Economic Science Institute & Argyros School of Business and Economics. This work was completed in part while I was a Visiting Associate Professor at Clemson University's John E. Walker Department of Economics, whom I thank for their hospitality. Jeremy Bulow and Patrick Warren provided helpful comments, as did two anonymous referees. This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.
Keywords: bargaining, auction, procurement, merger, hiring, investment
JEL: C78, D44, D82

[1] "Deal Transforms Global Pill Pipeline." *Wall Street Journal*, Mar 20, 2013, B.1.

[2] "Dell Buyout is a Fee-for-all - Banks Advising and Financing the Deal Could Reap More than $400 Million." *Wall Street Journal*, Apr 05, 2013, C.1.