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Strategic ignorance in ultimatum bargaining☆

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ABSTRACT

In his classic article "An Essay on Bargaining" Schelling (1956) argues that ignorance might actually be strength rather than weakness. We test and confirm Schelling's conjecture in a simple take-it-or-leave-it bargaining experiment where the proposer can choose between two possible offers. Option *A* always gives the proposer a higher payoff than option *B*. The payoff of the responder depends on the (randomly determined) state of nature. In one state payoffs of the two players are aligned whereas they are not aligned in the other state. The responder is always informed about the actual state. The proposer knows the actual state in our first treatment but not in the second. We find that proposers indeed benefit from ignorance because the responders accept almost all offers (even the unfavorable ones) if the payoffs are not transparent for the proposer. In additional treatments we investigate bargaining situations where the proposer can deliberately remain ignorant.

1. Introduction

The availability of information on an opponent's bargaining position plays an important role in negotiations and not only affects one's own bargaining behavior but also the behavior of an opponent. Generally, it is assumed that the more information that is available in a bargaining situation, the better the bargaining position is (e.g., Fischer and Ury, 1981, p. 45). Schelling (1960) challenged this view by arguing that a bargainer who is incompletely informed about his opponent's payoffs might have an advantage because the opponent would be forced to make concessions to avoid a bargaining breakdown. In his chapter on "*Strategic Moves*", Schelling notes, "*(. . .) ignorance can be an advantage to a player if it is recognized and taken into account by an opponent*" (Schelling, 1960, p. 161). As the informed bargainer is aware that the uninformed one does not know what a reasonable solution is, the burden of avoiding a stalemate is on the side of the informed bargainer. Early experimental studies seem to support this view (Siegel and Fouraker, 1960; Hamner and Harnett, 1975). The following example illustrates the basic intuition: two persons walking on a crowded main street are going to collide. One person

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anticipates the upcoming event but the other does not, for example, due to a distraction. The person aware of the possible collision clears the way, accepting the "cost" of leaving his ideal route. The other (unintentionally) ignorant person continues along his intended way: being uninformed pays off. Ignorance might also be used strategically. A person who anticipates the possibility of a collision might simply walk down the street while looking at the ground and pretending to be ignorant. The other informed person has to bear the costs of avoiding the collision, although he might have the feeling that the ignorant person is intentionally avoiding looking up. Thus, remaining *strategically ignorant* might also pay off. Putting this in an organizational context, one might consider a business partnership. One day an urgent request comes in, but only one of the two partners is in the office. Subtasks have to be allocated quickly between the two partners, and the nature of the tasks prohibits subsequent re-allocation. By deliberately remaining ignorant and not asking her partner about his preferences, the partner in the office can pick her preferred subtasks and leave the other subtasks to her partner. Should the partner turn out to dislike the subtasks allocated to him, she can come up with the excuse: "Oh sorry, I didn't know". The excuse might still have some force despite the fact that, in principle, she could have informed herself – or at least attempted to do so – for example, by giving her partner a call.[2]

The aim of this study is to experimentally test Schelling's conjecture in a simple two-person take-it-or-leave-it bargaining game. As it is particularly difficult to observe (strategic) ignorance in bargaining in the field, we chose an experimental approach that allows actions to be perfectly monitored, including those in which one attempts to avoid acquiring information. Control is the most important advantage of an experimental study (see Roth, 1995; Falk and Fehr, 2003), which is essential for our purpose, i.e., drawing conclusions regarding how strategic ignorance causally affects behavior. Moreover, in contrast to questionnaire studies, it is possible to provide participants with incentives that are likely to have a crucial influence on strategic ignorance in bargaining. Our basic experimental framework comprises a simple situation that is reduced to the essential features of strategic ignorance. One of two states of nature is determined by a 50:50 draw. While the interests of a proposer and a responder are aligned in state s_a, they are not in state s_n. The proposer has to offer one of two options, option *A* or option *B*. In state s_n, the proposer profits from option *A* more than the responder. Option *B* in state s_n would make both players' payoffs nearly equal, but this option is slightly inferior for the proposer in comparison to option *A*. In state s_a, option *A* provides both players with higher payoffs than option *B*. The responder can accept or reject the offer. Accepting an offer always leads to positive payoffs for both players, while rejection leaves them with zero payoffs.

In treatment *Transparency*, both players are fully informed about the true state, and we observe that proposers are not always able to implement their most preferred option. Offers of option *A* are frequently rejected in state s_n. In the *Non-Transparency* treatment, the proposer is ignorant about the true state, but the responder knows it. This information is known to both players. We hypothesize that the proposer will benefit from being ignorant, as the responder will accept nearly all offers. As the experimental results show, an ignorant proposer can almost always implement her most preferred option, i.e., option *A*. A possible explanation for this result is differences in causal attributions of how the outcomes emerged. If an unfavorable offer is attributable to bad luck (i.e., the random choice of one of the two states of nature), responders might accept these offers because negative intentions are not involved (see, e.g., Blount, 1995; Falk et al., 2008).

In a third treatment, *Choice*, the proposer can *choose* between remaining ignorant about the state of nature or inform herself about it. None of the alternatives incur any direct monetary costs. The notion of introducing the possibility of remaining strategically ignorant of the opponent's payoff is adapted from Dana et al. (2007), who analyze the strategic use of ignorance in a dictator game. The dictator can remain ignorant to justify a selfish action to herself. In our setting, not to inform herself about the state also allows the proposer to select the self-interested offer (i.e., option *A*) without knowing the actual payoff consequences for the responder. Knowing the state would potentially place some (internal) pressure on the proposer to select the more equalizing option *B* in state s_n. Additionally, by remaining ignorant, the proposer might wish to influence the responder's inclination to accept option *A* in state s_n. The responder is always informed about the actual state and learns whether the proposer chose to remain ignorant. We hypothesize that proposers will not benefit from strategic ignorance, as responders will perceive the act of remaining ignorant as hostile. Our results suggest that responders tend to reject option *A* in state s_n less frequently when the proposers remain ignorant. To push the notion of the perception of hostile intentions a bit further, we designed a modified version of the *Choice* treatment, *Choice Uncertain Information Acquisition*, where a proposer's attempt to inform herself about the state is only successful in 50 percent of the cases. As a consequence, if the proposer remains ignorant, the responder does not know whether this ignorance was purposeful. We find that responders accept option *A* offers from ignorant proposers significantly more frequently in state s_n than from proposers who successfully informed themselves about the state. In a fifth treatment, *Choice Hidden*, the responder is not informed of whether the proposer informed herself about the state. Here, few proposers remain ignorant, and responders frequently accept option *A* offers in state s_n.

The paper is organized as follows: we begin by discussing the literature related to strategic ignorance. Second, we state our hypotheses and elaborate our experimental design. In Section 5, we report the experimental results. Finally, Section 6 discusses the results in light of previous findings and concludes.

[2] Fischbacher and Utikal (2010) analyze the effectiveness of apologies in preventing punishments after harmful offenses. They find that excuses are not accepted if the harmdoer commits offenses intentionally. If the intention of an offense is not clear, i.e., if the situation is ambiguous, apologies seem to be an effective instrument to reduce the likelihood of being punished. In our context, remaining ignorant blurs the intentionality of the proposer and therefore might reduce the likelihood of being punished with a rejected offer.