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Self-control and bargaining

Shih En Lu

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Self-Control and Bargaining

Shih En Lu*

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Abstract

This paper examines a bargaining game with alternating proposals where sophisticated quasi-hyperbolic discounters negotiate over an infinite stream of payoffs. In Markov perfect equilibrium, payoffs are unique, and a small advantage in self-control can result in a large advantage in payoff. In subgame-perfect equilibrium, a multiplicity of payoffs and delay can arise, despite the complete information setting. Markov perfect equilibria are the best subgame-perfect equilibria for the agent with more self-control, and the worst for the agent with less self-control. Naïveté can help a player by increasing their reservation value.

Keywords: Self-Control, Bargaining, Time Inconsistency, Quasi-Hyperbolic Discounting

JEL Codes: C78, D90

*Department of Economics, Simon Fraser University, Burnaby, BC V5A 1S6, Canada. Email: shihenl@sfu.ca

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