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Multilateral Negotiations and Formation of Coalitions

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Abstract

This paper analyses properties of games modelling multilateral negotiations leading to the formation of coalitions in an environment with widespread externalities. The payoff generated by each coalition is determined by an exogenous partition function (the parameter space). We show that in almost all games, except in a set of measure zero of the parameter space, the Markov perfect equilibrium value of coalitions and the state transition probability that describe the path of coalition formation is locally unique and stable. Therefore, comparative statics analysis are well-defined and can be performed using standard calculus tools. Global uniqueness does not hold in general, but the number of equilibria is finite and odd. In addition, a sufficient condition for global uniqueness is derived, and using this sufficient condition we show that there is a globally unique equilibrium in three-player superadditive games.

JEL: C71, C72, C78, D62

KEYWORDS: Coalitional bargaining, externalities, multilateral negotiations.

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