

# Why people reject advantageous offers— Non-monotonic strategies in ultimatum bargaining Evaluating a video experiment run in PR China

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## Abstract

Asking responders in ultimatum bargaining for only minimal acceptable offers, implicitly assumes strategies to be monotonic. This assumption seems at odds with actual behavior. We report on a group experiment where 53 percent of the responders state non-monotonic strategies. Content analysis of the video-taped discussions show that social concern, non-expectancy of high offers, emotional, ethical, and moral reasons, group-specific decision rules and aversion against unpleasant numbers are main motives for rejecting advantageous offers. A control experiment with individuals not being observed also displays non-monotonic strategies. Our findings speak to reconsidering assumptions on the parameter space in models of inequity aversion.

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## 1. Introduction

Experiments on the ultimatum game have shown remarkably stable deviations from purely selfish behavior. In the standard ultimatum game (Güth et al., 1982), a proposer can decide on how to split a given amount of money (the pie) between herself and a responder. The responder can either accept or reject the proposal. In case of acceptance, both receive the amounts as allocated; in case of rejection, both receive nothing.

Numerous symmetric ultimatum game experiments (UG in the following) with zero outside options have shown that individual proposers typically offer 30–50 percent of the pie, with the equal split often being the modal and median offer. Proposers who offer the responders less than 20 percent face rejection with high probability. These findings have been replicated across different subject populations, with different monetary stakes and different experimental procedures (Fehr and Gächter, 2000).

Apparently, responders perceive highly disadvantageous allocations as unfair. In this situation, being treated unfairly corresponds to low payoffs. The monetary and the motivational incentive are not at odds. Thus, rejecting a low offer becomes a likely action.

How do responders behave, however, if confronted with advantageous allocations (i.e. offers higher than 50 percent of the pie)? In this situation, being treated unfairly corresponds to high payoffs. Are unfair yet advantageous offers rejected as well although the monetary and the motivational incentive are in conflict?

In the present paper, we report on a remarkably high number of advantageous offer rejections in a UG video experiment we have been conducting in the People's Republic of China. Here, subjects were observed during decision making. Participants acted together in responder or proposer groups of three people, each being video taped while making their decision.<sup>4</sup> Our research agenda requires information on discussions of all potential offers. We therefore modified the standard sequential protocol by using a variant of the strategy method (Selten, 1967) where responders have to state acceptance or rejection for the full strategy space. The combination of the video and the strategy method provides the unique opportunity to learn from participants' spontaneous discussions about their reasons and motivations for rejecting advantageous offers.

Why is it important to analyze discussions on advantageous offer rejections? For one thing, there is growing experimental evidence on high offer rejections (Bahry and Wilson, 2006; Bellemare et al., 2005; Bolton et al., 2005; Cardenas, 2003; Güth et al., 2003; Henrich et al., 2001; Huck, 1999), yet the literature is far from giving a consistent explanation for such seemingly implausible behavior. Most of the available data allow indirect inferences only, based on observed decisions, participants' social characteristics, questionnaires, debriefings and conversations, or on analyzing participants' cultural environment. To the best of our knowledge, no data on high offer rejections is analyzed so far that allow an investigation of subjects' spontaneous articulations not being mediated by the researcher's personal interpretation.

Our study provides new insights in several respects. First, we found social concern to be the main motivation for refusing advantageous offers. This is in agreement with models of inequity aversion. An inequity averse responder suffers a loss in utility when he is worse off and when he is better off than the proposer (Bolton and Ockenfels, 2000; Fehr and Schmidt, 1999). Second, other motives turn out to be important as well. Among these are beliefs about proposer behavior,

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<sup>4</sup> According to Loomes (1999), the use of audio or video records makes up one of the real challenges of experimental economics in the future. For a more elaborate discussion on this research method, see Hennig-Schmidt (1999).

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