Delegated Bargaining

Introduction

- We test whether principals can use delegation to increase their earnings in a simple bargaining game.
- Previous research shows that principals use delegation to achieve greater earnings in non-strategic giving games without feeling responsible for the outcome (Hamman et al 2010), and are consequently held less responsible by others (Coffman, 2010; Bartling and Fischbacher, 2010)
- Prior studies using the ultimatum game find that delegation to an agent with direct incentives to retain money for the proposer leads to both lower offers and fewer rejections (e.g. Fershtman and Gneezy, 2001).

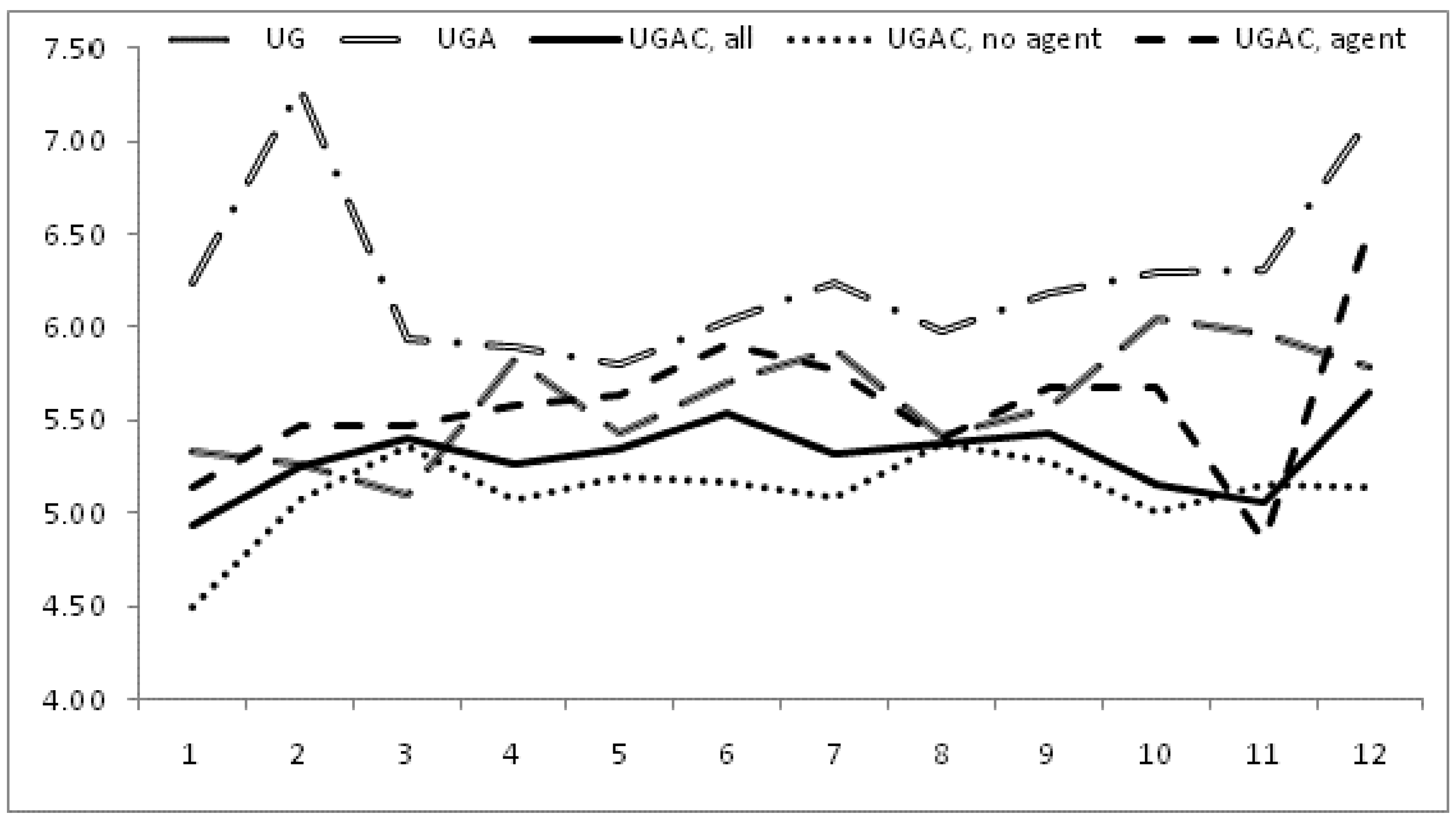
Experimental Design

- We use a repeated ultimatum game, wherein a principal is given $14 and then makes a one-time offer to split this endowment with randomly matched recipient, who may accept or reject the proposal. Rejection leaves both parties with nothing.
- In a treatment (UGA), the principals do not make the offer themselves, but select from a group of “agents” to make the offer on their behalf. Agents are incentivized only to be chosen by as many principals as possible in each round.
- Before principals select an agent, each agent sends a signal, indicating the amount he or she intends to offer the recipient, if selected.

Results Overview

- We find that delegation does not lower average offers to recipients. On the contrary, offers in our delegation treatment are actually higher than those made directly by principals.
- We also find that rejections in the delegation treatment fall significantly. Regression results indicate that this effect cannot be fully explained by the higher offers.
- Principals select the agent who sent the lowest signal only 28.6% of the time, implying a fair amount of risk-averse behavior on behalf of principals.

Average Offers (y-axis) to the Responders, over time (rounds on x-axis)



Conclusions and Future Work

Interestingly, we find that delegated proposals are in fact more equitable in our framework than those made directly by principals, contrary to prior findings that used direct incentives for agents. One potential explanation is that agents in our study were able to tacitly collude to maintain high offers, but this does not explain the choices made by principals. We are currently working on devising new treatments to tease out this and other explanations, such as what other types of contracts lead agents to behave more or less selfishly on behalf of their principals.

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