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A BARGAINING PROCEDURE WITH OFFER-DEPENDENT BREAKDOWN PROBABILITIES

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Abstract. This paper introduces a new solution concept for two-person bargaining. First a sequential bargaining process is proposed where break-down probabilities depend on the current offers. After showing that this process terminates in finitely many steps in a large class of bargaining problems, a one-stage solution concept is introduced which is the optimal offer for both players under given relative power indices. Three numerical examples illustrate the concept and solution methodology. The generalization of the solution for the n-person case is outlined in the last section.

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