Contents

List of Figures vii
List of Tables ix
Preface xi

1 Preview 1
1.1 The Problem 1
1.2 Objective and Theoretical Foundations 5
1.3 Organization of the Book 7
1.4 Some Methodological Remarks 8

2 Strategic Bargaining and Self-enforcing Contracts 11
2.1 Introduction 11
2.2 The State of the Art 12
2.3 On Discount Factors and Time Horizons 19
2.4 The Scope for Cooperation in a Non-cooperative Environment 21
2.5 A Theory of Strategic Bargaining for Self-enforcing Contracts 39
2.6 On Intertemporal Effects of Strategic Bargaining for a Self-enforcing Contract 58
2.7 Summary: The Basic Results 62

3 Bargaining for a Collective Good without Transfers 68
3.1 Introduction: Self-enforcing Cooperation without Transfers 68
3.2 Model Assumptions, Compliance Constraints and Optimal Policies 71
3.3 Concession Line and Strategic Bargaining Solution 88
3.4 The Impact of Discount Factor Changes 105
3.5 Application I: Implicit Collusion in Duopolistic Markets 111
3.6 Summary 120

4 Bargaining for a Collective Good with Transfers 123
4.1 Introduction: Self-enforcing Cooperation with Transfers 123
4.2 The Role of Transfers for the Compliance Constraints: the Receiver's and the Donor's Case 128
4.3 Optimal Policies 135
4.4 Concession Policies and Concession Lines 146

4.5 Feasibility Constraints, Strategic Bargaining Solutions and the Impact of Discount Factor Changes 167
4.6 Application II: International Environmental Policy 185
4.7 Application III: Trade Policy 191
4.8 Summary 203

5 Bargaining between Buyer and Seller 206
5.1 Introduction: Self-enforcing Cooperation between Buyer and Seller 206
5.2 Compliance Constraints, Optimal Policies and the Concession Line 209
5.3 Strategic Bargaining Solutions and the Impact of Discount Factor Changes 221
5.4 Summary 229

6 Concluding Remarks 231
6.1 Policy Implications 233
6.2 An Agenda for Future Research 236

Appendix: Rebargaining-proofness 239
References 249
Index 257

Figures

2.1	Compliance with cooperative resource extraction for $\gamma = 0.7$	18
2.2	Set of efficient agreements	31
2.3	Different payoff combinations in different periods	48
2.4	Frontier of the set of efficient agreements I	55
2.5	Frontier of the set of efficient agreements II	57
3.1	Utility reservation and compliance constraint of agent *i*	78
3.2	Utility reservation and compliance constraint of agent *j*	79
3.3	Scope for cooperation without transfers: the case of high discount factors	80
3.4	Scope for cooperation without transfers: the case of medium discount factors	85
3.5	Scope for cooperation without transfers for $\delta_i < 0.25$ and $\delta_j > 0.25$	86
3.6	Scope for cooperation without transfers for $\delta_i, \delta_j < 0.25$	87
3.7	Behaviour of ρ along CDEF	101
3.8	Behaviour of ρ along CGF	104
3.9	Payoffs of agent *j* and of agent *i* for $\alpha_i = \alpha_j = \gamma_i = \gamma_j = 1$, $\delta_j = 0.8$ and $\delta_i \in [0.3, 0.69]$	110
3.10	Non-cooperative equilibrium and mutual improvement in duopolistic markets	113
3.11	Scope for cooperation for strategic substitutes	115
4.1	Compliance constraints for different transfer levels	134
4.2	Utility reservation curves and compliance constraints for different transfer levels	135
4.3	Different concession policies for $T_j^* < 0$	149
4.4	Different concession policies for $T_j^* > 0$	155
4.5	Feasibility of Pareto-optimal levels for bargaining with transfers	171
4.6	Bargaining without and with transfers I	183
4.7	Bargaining without and with transfers II	184
5.1	Optimal policy for the buyer	213
5.2	Optimal policy for the seller	214
5.3	Feasibility of the Pareto-optimal level	217
5.4	Infeasibility of the buyer's optimal policy	218

5.5	Infeasibility of the seller's optimal policy	219
5.6	Feasibility of optimal policies in the buyer–seller case	220
5.7	Coincidence of optimal policies	225
A.1	No rebargaining	246
A.2	Rebargaining and rebargaining solution	247

Tables

2.1	Payoffs from cooperation and non-cooperation for two options for agent i and agent j	13
2.2	The alternating offer game	42
2.3	Payoffs in different bargaining periods	51
2.4	Model overview	67
3.1	Contract curve, optimal policies and compliance constraints for different discount factor combinations	89
4.1	Optimal policies for agent j in the case $T_j \leq 0$	138
4.2	Optimal policies for agent j in the case $T_j \geq 0$	140
4.3	Optimal transfer policies for agent j	143
4.4	Optimal transfer policies for agent i	144
4.5	Optimal transfer policies for both agents	145
4.6	Concession policies for $T_j^* \neq 0$	159
4.7	Concession policies for $T_j^* = 0$	167
4.8	Country data set	187
4.9	Cooperation between EU and Japan	188
4.10	Cooperation between EU and NA	189
4.11	Cooperation between EU and EER	189
4.12	Trade policies for $bg = 1.5$ and $pg = -0.5$ and different discount factor combinations	201
4.13	Trade policies for $bg = 1.25$ and $pg = -0.25$ and different discount factor combinations	202
5.1	Bargaining parameters and bargaining gains for $\delta_s = 0.7$ and different discount factors of the buyer in the buyer–seller case	226
5.2	Bargaining parameters and bargaining gains for $\delta_s = 0.9$ and different discount factors of the buyer in the buyer–seller case	227
5.3	Bargaining parameters and bargaining gains for $\delta_b = 0.7$ and different discount factors of the seller in the buyer–seller case	228
5.4	Bargaining parameters and bargaining gains for $\delta_b = 0.9$ and different discount factors of the seller in the buyer–seller case	229
6.1	Role of agents bargaining for a self-enforcing contract and/or deciding on the institutional setting	234

A.1 Payoffs from cooperation and non-cooperation for three options for agent *i* and agent *j* 240
A.2 Example for Table A.1 242