

Contents

Acknowledgements	vii
Symbols	xiii
Introduction	1
References	5
1 Bargaining Theory	7
1.1 The Axiomatic Approach	8
1.2 The Strategic Approach	10
1.3 A Strategic Perspective on Market Exchange	12
1.4 Discussion	16
References	17
2 Game Theory and Fairness Preferences	19
2.1 Evidence from Experiments	20
2.2 Equity-based Approaches	22
2.3 Reciprocity	23
2.3.1 Kindness Term	24
2.3.2 Reciprocation Term	27
2.3.3 Utility Function	27
2.3.4 Equilibrium Concepts	29
2.3.5 Explanatory Power	31
2.4 Summary of Fairness Approaches	32
References	33
3 Reciprocity—An Indirect Evolutionary Analysis	35
3.1 The Model	39
3.1.1 The Material World	39
3.1.2 Agents' Preferences	40
3.1.3 Stability Concepts	41
3.2 Evolutionary Analysis	42

3.2.1	The Ultimatum Game	42
3.2.2	The Dictator Game	46
3.2.3	The Mixed Environment	48
3.2.4	Restricted Parameters in the Mixed Environment	49
3.3	Comparison with a Model Based on Inequity Aversion	52
3.4	Concluding Remarks	53
	References	54
4	Fairness Norms in Ultimatum Exchanges	57
4.1	Experimental Design	59
4.2	Experimental Results	61
4.2.1	Seller Behavior with Reference Points	61
4.2.2	Proposer Behavior: Are Small Reference Prices Negligible?	63
4.2.3	Buyer Behavior with Reference Points	64
4.2.4	Efficiency	66
4.3	Discussion of Experimental Results	67
4.4	Concluding Remarks	73
	Appendix: Instructions	74
	References	80
5	Fairness, Price Stickiness, and History Dependence in Decentralized Trade	81
5.1	The Model	83
5.2	Analysis of the Model	85
5.2.1	Equilibrium Price	86
5.2.2	Self-confirming Price Conventions	91
5.3	Concluding Remarks	97
	References	100
6	Generalizations and Extensions of the Decentralized Trade Model ...	103
6.1	Matching Frictions	104
6.2	Diverging Reference Prices of Buyers and Sellers	105
6.3	Mutant in the Market	107
6.4	Two Types of Agents	113
6.5	Multiple Agent Types	117
6.6	Heterogeneous Discount Factors	118
6.7	Shape of the Utility Function	121
6.8	A Model with One-Time Entry	124
6.9	Some Thoughts on Incomplete Information	127
6.10	Concluding Remarks	129
	Appendix: Price Formulas	132
	References	137

7	Price Rigidity in an Experimental Market	139
7.1	Theoretical Background and Experimental Design	141
7.2	Experimental Procedures	144
7.3	Trial Setup	147
7.4	Trial Results	147
7.5	Concluding Remarks	155
	Appendix: Instructions	157
	References	166
	List of Figures	169
	List of Tables	171
	Index	173