

The Silent Bargaining Quiz

1. Choose the most popular of the following boxes:

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2. Someone is going to toss a coin. You have to call it. What do you call:

Heads or Tails ?

(Write down your answer.)

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- 3.**
- a. You're supposed to meet someone in Paris. You know the day and the time, but not the place. Where would you go?**
 - b. The same question, but this time it's London.**
 - c. The same question, but this time it's New York.**

- 4. A distinguished attractive gentleman (who also looks wealthy) presents you with a proposition. He says that he is willing to pay everyone responding to this quiz a sum of money. If you all independently ask for the same amount of money, then that's what he will pay each of you. If people independently ask for different amounts, then no-one gets anything.**

What will you ask for?

5. The first ballot in a political election has been tabulated. These are the results:

Brown	15
Jones	28
Robinson	19
Smith	29
White	9

Your only interest in this election is purely political: you do not care who's elected, so long as you vote for the winner. In the second ballot, whom will you vote for?

(Circle the name of your choice.)

- 6. Divide \$100 into two piles. If everyone divides the \$100 the same way, then everyone will win \$100. (Hypothetically.)**

_____ - _____

- 7a. You are in the market for a second-hand car. You've been looking around for some time and have now found just the car you'd like to buy. It's the right colour; it has the right options; it will suit your needs just fine. When you ask about the price, the first price the sellers quote is \$20,650.**

What do you think the final price of the car will be – exactly?

7b. Change the story slightly. Now you're buying a used car for your daughter. It also fills the bill just fine. The first quoted selling price is \$9,650.

What do you think the final price of the car will be – exactly?

7c. Same question as b, but now the first mentioned price is \$9,450.

Again, what do you think the final price of the car will be – exactly?

What do our answers as a class tell us about

- **the price the seller should first ask? and**
- **the price the potential buyer should counter with?**

Do you see some patterns emerging? – are there *focal points* where agreement is more likely?

Would you change your answers with the wisdom of hindsight (now you know how other participants answered)?

The Take-Away

Starting with an initial asking price down \$200 from just above to just below a focal point (such as \$9,500) doesn't lower the expected final price by \$200.

Why not?

Focal points attract expectations and focal points are round numbers; the process is not smooth.

So ask an initial price (if selling) that is above a focal point, not below it.

Envelopes and Money

- 1. Everyone gets an empty, blank envelope.**
- 2. You can put any amount of money you wish into your envelope. (No IOUs.)**
- 3. We will give each participant \$10 if the group as a whole puts a total of \$250 into the envelopes.**
- 4. Don't talk about this to other participants.**
- 5. Simply put whatever amount you choose into the envelope and seal it.**
- 6. Write on the back of the envelope how much you think the group will contribute, and add any comments you wish. Names are not needed.**

The Card Game I

I keep 40 black cards and distribute one red card to each of you. Imagine that the AGSM's Dean has put up \$4,000 in prize money: he has offered to pay \$100 to anyone—either me or any one of you—who turns up with a pair of cards, one black and one red.

The only stipulation is that you can't get together and bargain as a group with me. You must bargain individually.

Rule 1: *only I can make offers of money for your cards. It's a one-shot, **take-it-or-leave-it negotiation**—an “ultimatum” game, as it were.*

Each of you can either accept or reject my offer. If you accept, then the deal is done. If you reject, then your game is over: you can't make a counteroffer, and I can't come with a higher offer. Either the deal is done or it's lost forever. I have only one chance with each of you, and vice versa.

To analyse this game: recognise that each participant is likely to accept an offer so long as he or she gets *some* money.

The take-it-or-leave-it rule confers all the power to the person making the offer, and none to the person accepting or rejecting it.