

**FAIRNESS, ESCALATION, DEFERENCE, AND SPITE:
Strategies used in labor-management bargaining
experiments with outside options***

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6 APPENDIX - PARTICIPANT INSTRUCTIONS

PAYMENT AND CONFIDENTIALITY

You have been asked to participate in an economics experiment. For your participation today we have already paid you \$5 cash. You may receive an additional amount of money depending on your decisions in the experiment. This additional amount will be paid to you in cash at the end of the experiment.

In this experiment each of you will be paired with another person. You will not be told who this person is and the other person will not be told who you are, either during or after the experiments. Your decisions in this experiment will be confidential; none of the other participants will ever know the decisions you make.

THE EXPERIMENT

This experiment is about labor-management negotiations. After we finish reading the instructions together, you will be randomly split into two groups, union leaders from a domestic (i.e. U.S.) labor union and managers from a U.S. company. The groups will be separated into two different rooms, and each union representative will be randomly paired with a manager to negotiate the division of the proceeds from production.

Each person will engage in four different negotiations. In each negotiation you will be paired with a different person from the other group. This means you will not negotiate with the same person more than once. Negotiations will be conducted by one party making an offer and the second party accepting or rejecting the offer. We will now be more specific about how negotiations will be carried out.

In the first round of each negotiation the union will make an offer to divide \$10 which represents the proceeds from production after all costs except labor have been subtracted; offers may be made in decimal values. Unions make offers by filling in the appropriate blank on an Offer Form. Managers respond by circling "accept", "reject and continue", or "reject and search" on the form. We will take the forms back and forth between unions and managers. Please do not discuss the offers you are making or receiving.

If a manager accepts the offer, negotiations end. If the accepted offer was "w," the management would get "w" and the union would get \$10.00 minus "w." If the manager chooses "reject and continue" negotiations continue, but at a cost of \$1. If the manager chooses "reject and search" negotiations are suspended while the manager considers an option to move production overseas, the cost to search is \$2.

"Reject and Continue"

If the manager chooses to continue negotiations without searching, the manager makes a counterproposal to the union, the amount to be divided will shrink from \$10.00 to \$9.00 because of the delay. A manager makes a counterproposal by filling in the appropriate blank on the offer form. If a union accepts the counteroffer negotiations end. Say the accepted offer is "y," then the union would get "y" (y will be some number between 0 and 9) and the manager would get \$9.00 minus "y." If the union chooses to reject the counteroffer, negotiations end and both parties get nothing.

"Reject and Search"

The value to the manager of moving production overseas is determined randomly. More specifically, if the firm chooses to search the manager will roll an eight-sided die to determine the value of moving production overseas. Whatever side lands up will be the manager's payoff in dollars. Managers are required to fill in the appropriate blank for the value of the random option. Once the value of this option is determined the manager will be

able to accept or reject the option. Managers respond by circling “accepts option” or “rejects option.” If the value of the option is “x” (x will be some number between 0 and 8) and the manager accepts the option, negotiations end. The manager will receive \$x and the union will receive \$0.

If, after searching for an outside option, the manager decides to reject the option she will then make a counterproposal to the union. Either way, if a manager chooses to search and then decides to forgo the option or if she decides to continue, the manager will make a counterproposal to the union.

Because of the extended delay, when negotiations make it to the second round where the manager makes a counterproposal to the union, the amount to be divided will shrink from \$10.00 to \$8.00. A manager makes a counterproposal by filling in the appropriate blank on the offer form. If a union accepts the counteroffer, negotiations end. Say the accepted offer is “z,” then the union would get “z” and the management would get \$8.00 minus “z.” If the union chooses to reject the counteroffer, negotiations end and both parties get nothing.

At the end of the four negotiations, you will be paid, in cash, the sum of the amounts you negotiated during two of the four bargaining periods. The periods that you will be paid for will be randomly chosen for each participant.

The attached diagram illustrates the bargaining procedure in each negotiation. This diagram will also serve as an offer record sheet. You will pass this offer record sheet back and forth between the two rooms.

A separate earnings record sheet is also included; this is your record. Carefully track your offers and all counter offers on this earnings record sheet because final payments will be based upon the information recorded on this sheet.

Are there any questions?