

Information Revelation and Acquisition in Bargaining

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Abstract

This paper analyzes a model of alternating-offer bargaining in the presence of information flow revealing one's bargaining posture. The equilibrium outcome of this bargaining game converges to that of its corresponding continuous-time game, as agents can make offers frequently. We characterize the equilibrium of this continuous-time game and develop some comparative statics regarding how equilibrium behaviors vary with the various parameters; in particular, we show that an agent (if rational) has more incentives to reveal herself as the information flow about her own type is higher. We further enrich the benchmark model by allowing the agents to engage in costly information acquisition. We show that if the probability of irrational type on each side is not too large, then the agents will randomize when acquiring information which results in inefficiency.

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