

Endogenous Preferences in Negotiations – An Experimental Study

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Negotiation analysis and game theoretic bargaining models usually assume parties to have preferences that are exogenously given and independent of the history of offers made. On the contrary, some empirical observations cannot be explained by fixed preferences, but can be explained if one allows preferences to change during a process. In bilateral bargaining, for example, preferences might be influenced by the offer history. Another example are bidding wars in auctions where bidders become overly committed to an auction and bid above their ex-ante valuation for a good.

The main challenge for testing on endogenous preferences in a laboratory experiment is, that subjects' preferences are neither directly observable, nor can they be elicited reliably – at least not multiple times from the same subject. An experimental design for testing whether subjects' preferences change during a bilateral multi-attribute negotiation is suggested. The experiment involves several induced value and non-induced value negotiations and subjects are asked for their preferences on small changes of a negotiated agreement – their willingness to accept (WTA) for losing on a single attribute and their willingness to pay (WTP) for winning on this attribute are elicited. This data can be used to draw conclusions on subjects' reference-points relative to which they evaluate an agreement. An endowment effect (e.g. Kahnemann, Knetsch, and Thaler 1990) and a history of ownership effect (Strahilevitz and Loewenstein 1998) might be observed and might differ depending on the history of offers made by the counterparty.