

"Bargaining and News"

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We study a model of bargaining in which a buyer makes frequent offers to a privately informed seller, and values are (potentially) interdependent. In addition, a publicly observable news process gradually reveals information about the seller's type. We demonstrate that the buyer's equilibrium payoff is identical to what he would achieve if he were unable to screen using prices, and that delay occurs only if the adverse-selection problem is sufficiently severe. Further when trade is delayed, the buyer engages in a kind of costly "experimentation" by making offers that are sure to earn him negative payoffs if accepted, but that improve his information and expected continuation payoff if rejected. In addition, we investigate the effects of market power by comparing the trade patterns, welfare, and efficiency in the (single-buyer) bargaining model to those of the competitive-buyer model and find novel differences. For example, competitive buyers lead to lower efficiency than a single buyer. This stems from the fact that changes in the level of buyer competition alter the relative market power of buyers vs. sellers, who have different expectations about the realization of future news.