

Delay in Bargaining with Outside Options

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A seller negotiates price with a buyer who has an outside option that arrives at a random time during the negotiation. Both the buyer's valuation of the good and the value of the outside option are unknown to the seller. We show that the interplay between information asymmetry and outside options is a source of delay in bargaining. In the seller-optimal bargaining mechanism, the seller and the buyer delay in reaching an agreement with positive probability. A delay occurs even in the limit as the arrival rate of the outside option goes to infinity. If the seller cannot commit to the seller-optimal bargaining mechanism, the same outcome is approximately achieved in a perfect Bayesian equilibrium of the bargaining game in which the seller makes all offers.