

A Note on Equilibrium Uniqueness in the Baron-Ferejohn Model^{*}

Levent Celik[†]

Bilgehan Karabay[‡]

May 2011

Abstract

The Baron-Ferejohn multilateral bargaining model predicts a payoff-unique stationary subgame perfect equilibrium (SSPE) in which players' equilibrium strategies are not uniquely determined. In this note, we present a modified version of the Baron-Ferejohn model by introducing veto players and provide a sufficient condition to obtain a truly unique SSPE in terms of payoffs as well as players' equilibrium strategies.

Abstrakt

Baron-Ferejohnův multilaterální vyjednávací model předpovídá jediné stacionární subgame-perfect rovnovážné řešení pro výnos (payoff-unique stationary subgame perfect equilibrium – SSPE), přičemž strategie hráčů nejsou jednoznačně určeny. V této poznámce představujeme modifikovanou verzi Baron-Ferejohnova modelu tím, že zavádíme hráče s právem veta, a poskytujeme postačující podmínku pro získání skutečně jediného SSPE řešení, ve smyslu výnosu i strategie hráčů.

Keywords: Multilateral bargaining; Equilibrium uniqueness; Veto players.
JEL classification codes: C72, C78.

^{*}We would like to thank Hulya Eraslan, John Hillas, John McLaren, Robin-Eliece Mercury, Matthew Ryan and Avner Shaked for their helpful comments. This research was supported by a grant (project reference number 3625352/9554) from the University of Auckland Faculty Research Development Fund. All opinions expressed are those of the authors and have not been endorsed by the University of Auckland. All errors are our own.

[†]CERGE-EI (a joint workplace of the Center for Economic Research and Graduate Education, Charles University, and the Economics Institute of the Academy of Sciences of the Czech Republic), P.O. Box 882, Politických veznu 7, 111 21, Prague 1, Czech Republic. Tel: +420 224 005 107. E-mail: celik@cerge-ei.cz. URL: <http://home.cerge-ei.cz/celik>.

[‡]Department of Economics, University of Auckland, Owen G. Glenn Building, 12 Grafton Road, Auckland 1010, New Zealand. Tel: +64 9 923 7193. E-mail: b.karabay@auckland.ac.nz. URL: <http://bilgehan.karabay.googlepages.com>.