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UNIONS AND STRIKES WITH
ASYMMETRIC INFORMATION

by

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ABSTRACT

Strikes seem to be a Pareto inefficient outcome of bargaining between a union and a firm; however, this paper shows that strikes can be the outcome of rational behavior by both agents. In a situation in which the firm has more information than the union concerning the state of nature, the union can use strikes as a way of gaining information. The model uses an asymmetric information model where the firm has information about the state (i.e. the firm's profitability) that the union does not know. The schedule of wage offers by the union depends on the probabilities of occurrence of a given state -- and therefore the probability of the firm's ability to pay certain wages.