

Dynamic Bargaining with Endogenous Default
Wioletta Dziuda
Northwestern University
November 2009

ABSTRACT

We analyze an infinite horizon model of bargaining over a set of policies, in which both players receive utility in every period, and preferences evolve over time. In each period one player makes a take-it-or-leave-it offer. If the other player accepts the offer, the new policy is implemented. Otherwise, the previous period policy remains in place. In the subsequent period, the previously implemented policy becomes the default option, and the process repeats itself. The endogeneity of status quo affects the behavior of the players: in each period they trade off the current utility with the future bargaining power determined by the implemented policy. As a result, the policies implemented in each period may not be Pareto efficient. We examine how the efficiency and the inertia of policy making is affected by this dynamic linkage.