

Strategic Ignorance in Bargaining

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Abstract

In his classic article "An Essay on Bargaining" Schelling (1956) argues that ignorance might actually be strength rather than weakness. We test and confirm Schelling's conjecture in a simple ultimatum bargaining experiment where the proposer can choose between two possible offers. Option A always gives the proposer a higher payoff than option B. The payoff of the responder depends on a randomly determined state of nature, i.e., in state 1 option A is unfavorable for the responder and in state 2 option B is the unfavorable one. While the responder is always informed about the actual state, it is transparent for the proposer in our first treatment but not in the second one. We find that the proposer indeed benefits from ignorance because the responders accept all offers (even the unfavorable ones) if the payoffs of the responder have not been transparent for the proposer. In a third treatment we investigate a situation where the proposer can deliberately remain ignorant. One could assume that remaining ignorant on purpose would be punished by the responder if an unfavorable outcome results. Surprisingly, we find indications that strategically remaining ignorant is also beneficial for the proposer.