

Competitive equilibrium as a bargaining solution: an axiomatic approach

Shiri Alon and Ehud Lehrer

The paper introduces an axiomatic characterization of a solution to bargaining problems. The bargaining problems addressed are specified by: (a) the preference relations of the bargaining parties (b) resources that are the subject of bargaining, and (c) a pre-specified disagreement bundle for each party that would result in case bargaining fails. The approach is ordinal, meaning that the solution is independent of the specific utility indices chosen to represent parties' preferences. We propose axioms that characterize a solution that matches each bargaining problem with an exchange economy whose parameters are derived from the problem, and assigns the set of equilibrium allocations corresponding to one equilibrium price vector of that economy. The axioms describe a solution that is the result of an impartial arbitration process, expressing the view that arbitration is a natural method to settle disputes in which agents have conflicting interests, but can all gain from a compromise.

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