Wage and Employment Determination through Non-Cooperative Bargaining

by

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Abstract

This paper investigates wage and employment determination by a group of workers or union and a firm, making use of the techniques of non-cooperative bargaining. Previous analyses have examined wage determination with an artificial restriction that employment is determined either before or after wage determination has occurred. Here, employment determination is made part of the bargaining process. With two variables being determined, there is bargaining with a variable pie and solutions correspond to equilibria without commitment. Two different notions of efficiency - exchange and pie efficiency - are relevant and serve to characterise equilibria. Multiple equilibria are shown to arise naturally once exchange inefficient proposals are possible. In all equilibria there is overemployment. Factors which restrict a firm’s ability to alter the labour force during or after the wage bargaining process are shown, paradoxically, to benefit the firm.

Keywords: Non-cooperative bargaining, Multi-issue bargaining, Non-commitment, Unions

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