Bargaining with Altruism

Author:Robert A. Pollak

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Despite extensive use of bargaining models in economics and despite Becker's insistence on the importance of altruism in families, the theoretical literature on bargaining ignores altruism and assumes that everyone is an egoist. This paper shows that incorporating altruism into cooperative bargaining models shrinks the set potential cooperative bargaining solutions. The analysis depends on the implications of altruism for Pareto efficiency and the implications of Pareto efficiency for potential cooperative bargaining solutions. For noncooperative bargaining, the analysis implies that any noncooperative solution that lies outside the shrunken set of potential cooperative bargaining solutions is not Pareto efficient.