

Assignment #3

READ:

- (1) Chapter 11 "*Tacit Negotiations and Social Dilemmas*" with particular attention to:
- Business as a Social Dilemma
 - Common Myths
 - The Prisoners' Dilemma

- (2) Appendix 1 "Are You a Rational Person?"

Here Thompson provides a brief summary of two prescriptive theories for decision making under uncertainty [pp 297-313], the Subjective Expected Utility (SEU) principle and Prospect Theory. SEU is a prescriptive characterization of preferences for taking risks and a guide to how to act in the face of uncertainty when outcomes are uncertain and you are risk averse or risk prone. If you are not already familiar with it, read this material.

Utility principles are used to develop a framework for joint (more than one person) rationality as the underpinning of schemes for deciding what is fair and who gets how much. Nash's Arbitration Scheme is one example. READ about Nash Bargaining Theory, a device for "dividing the pie fairly" if negotiators wish to behave rationally. Some of Nash's assumptions are controversial!

- (3) **Oil Price Game Instructions.** You **must** read these instructions that appear after the PowerPoint slides carefully in order to be properly prepared for our in-class negotiation in which you will play the role of a member of the Oil Pricing Board of either Batia or Alba. I will review them in class to be sure everyone is "on board!"

Questions to think about:

Questions to think about are listed at the end of the Oil Price Game instructions that follow the PowerPoint slides starting on the next page.

I emphasize here an *important negotiation rule*: You must negotiate ROUND by ROUND. You cannot reach an agreement at the outset or at any point before the last round that covers all successive rounds.