

Assignment #3

You will play the **Oil Price Game** in class.

READ:

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

SUGGESTED READINGS:

- (2) Appendix 1 “**Are You a Rational Person?**” (Thompson)

Here Thompson provides a brief summary of two prescriptive theories for decision making under uncertainty [pp 320-339], 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!

For those of you who wish a light treatment of the Prisoner’s Dilemma similar to, but more extensive than that given in Thompson, read Chapter 4 “Game Theory” in Howard Raiffa’s revision of his 1982 classic. The revision is titled *Negotiation Analysis, The Science and Art of Collaborative Decision Making*, The Belknap Press of Harvard University Press (2005). If you wish a truly authoritative analytical treatment, *Games and Decisions* (1957) by R. Duncan Luce and Howard Raiffa offers the most elegant discussion of the foundations of game theory ever published. Other books are more comprehensive and cover topics not yet developed in the 1950’s, but none offer a more polished and penetrating non-mathematical evaluation and critique of basic assumptions of game theory. Few other books are as easily readable.

- (3) **Oil Price Game Instructions.** You **must** carefully read the instructions that appear after the PowerPoint slides in order to be properly prepared for our in-class negotiation in which you will play the role of members of the Oil Pricing Board, Batia or Alba. I will review the instructions 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.

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.

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