

# Bargaining in Networks

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## Abstract

Economic agents are arranged in networks of relationships and characteristics of these social interactions influence economic activity (Jackson et al., 2017). As economic behaviors are shaped by network patterns, it is important to understand how networks influence economic surplus generation and distribution. These influences have implications for development policy as network effects may leverage features of policy design. For example, in a theoretical examination of how networks affect the well-being of connected individuals, Bourles et al. (2017) find that a positive income shock to an individual benefits the entire network, but a redistribution of resources away from high income donors may worsen aggregate outcomes and increase inequality. Recent empirical work shows that networks influence an array of economic outcomes. For example, Johny et al. (2017) show that social networks affect income diversification in rural India. Also in India, Banerjee et al. (2013) show that social networks play a key role in the diffusion of microfinance. Nevertheless, the literature is scarce on empirical papers investigating what type of network structures are more beneficial to an economy.

The objective of this paper is to use economics experiments to fill this gap in the literature and examine network effects in a controlled environment. We design an experiment where subjects are allocated to a fixed network structure and receive cash endowments. Individuals linked in the network are asked to play ultimatum games, where a proposer makes an offer on how to split his/her endowment, and a recipient may accept or reject the offer. When offers are accepted the endowment travels through the network. Rejected offers lead to a payoff of zero to both players. This design allows us to examine how economic surplus travels through networks, and look at how the network changes income concentration after the bargaining games.

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## References:

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