15-4. Salary Negotiation

The following represents the potential outcomes of your first salary negotiation after graduation:

Assuming this is a Sequential Move Game with the employer moving first, indicate the most likely outcome. Does the ability to move first give the employer an advantage? If so, how? As the employee, is there anything you could do to realize a higher payoff?

EMPLOYER

LOW SALARY OFFER HIGH SALARY OFFER

EMPLOYEE WALKS EMPLOYEE ACCEPTS EMPLOYEE WALKS EMPLOYEE ACCEPTS

EMPLOYER GETS $0 EMPLOYER GETS $100 EMPLOYER GETS $0 EMPLOYEE GETS $100

EMPLOYEE GETS $0 EMPLOYEE GETS $75 EMPLOYEE GETS $0 EMPLOYER GETS $75

15-6. Entry Game with Withdrawal

In the text, we considered a Sequential Move Game in which an entrant was considering entering an industry in competition with an incumbent firm (Figure 15.1). Consider now that the entrant, if fought, has the possibility of withdrawing from the industry (at a loss of 1 for the entrant and a gain of 8 for the incumbent), or staying (at a loss of 5 for each player). What is the equilibrium of this game? Discuss if the entrant is better off with or without the ability to withdraw.