Risk and Information in Dispute Resolution: An Empirical Study of Arbitration
(joint paper with Bernardo Silveira and Xun Tang)

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Abstract

This paper studies binding arbitration, a widespread dispute resolution mechanism. We develop a two-stage model of negotiation followed by arbitration, where disputing parties choose strategic actions given asymmetric risk attitudes and learning by the arbitrator. Upon establishing identification, we estimate the model using data on public sector wage disputes in New Jersey. Counterfactual simulations find that the more risk averse party obtains inferior outcomes in view of the two-stage process. Simulations comparing two popular types of arbitration—final-offer and conventional—support the view that final-offer arbitration leads to less divergent offers, higher-variance awards, and better information revelation through the parties' offers.