Abstract
We investigate a supply chain setting where a supplier's cost information may be private information (and they have the ability to disclose it) and buyers and suppliers may endogenously match into pairs. After forming pairs, the two parties interact in a dynamic back-and-forth bargaining environment. We first derive theoretical predictions depending on whether the supplier's cost information is private or not, and the matching protocol type. We then test these predictions through a human-subject experiment, which yields a number of insights. A key one is that suppliers always make less than the normative theory predicts, whether their cost information is known or private information. This effect is especially pronounced under private information for high cost suppliers, because buyers make more aggressive bargaining offers in such a setting. Thus, contrary to theory, a second result is that higher cost suppliers actually benefit from disclosing their private costs, in an effort to achieve a more favorable outcome while bargaining. A third important result is that endogenous matching leads to a higher variance of profits, compared to an exogenous matching protocol. This is due to the ability of higher quality buyers to choose to contract with higher quality suppliers and vice-versa.