

## Instructions



Consider a two round bargaining game in which Walmart may buy some of Kmart's outlets to help "rationalize" geographical sales regions. Insider experts agree that the sum of the increase in value to both firms from transferring ownership of these stores from Kmart to Walmart is worth \$100 million. Also the physical assets themselves are valued at another \$50 million (which could be reaped by selling them to an unnamed third party).

**To summarize:** if the stores are sold, Walmart gains \$150 million minus the amount offered to Kmart; Kmart gains the amount it receives from Walmart minus \$50 million, the value of the stores. If the stores are not sold Kmart keeps its \$50 million facility, and neither firm makes or loses anything.

First Walmart makes an offer to Kmart. The very next instant there is a 20 percent chance that the FTC issues a ruling preventing the sale.

If the sale is allowed, Kmart can accept the offer, or reject it. If Kmart rejects the offer, Walmart has a 40 percent chance of making a second offer, and Kmart has a 60 percent chance of coming back first, with its own price offer.

If a second offer is made by either party, there is a 20 percent chance FTC may belatedly prevent the sale. If the second offer is allowed by the FTC, but is rejected anyway by the counterparty, then no one gets anything, and Kmart retains ownership of its stores.

In that last case the FTC stops negotiations for sure because the journalists have well and truly caught on.

Round:

**Walmart**

Please write the offer to **Kmart**.

Offer to **Kmart**:  and click "Continue"

Note: offer has to be greater than 0.

The very next instant there is a 20 percent chance that the FTC issues a ruling preventing the sale. Otherwise **Kmart** can accept the offer or reject it. If **Kmart** accepts the proposal **you** gain \$150 million minus the amount offered to **Kmart**; **Kmart** gains the amount it receives from **you** minus \$50 million, the value of the stores. If **Kmart** rejects, **you** will have a 40 percent chance of making a second offer, and **Kmart** has a 60 percent chance of coming back first, with its own price offer. If the stores are not sold **Kmart** keeps its \$50 million facility, and neither firm makes or loses anything.

Round:

*Kmart*

*Walmart's* offer is .

Please indicate if you would like to accept or reject the offer:

Kmart first response	
Accept	Reject

If *you* accept the offer *you* will receive  and the *Walmart* will

receive . If *you* reject the offer, *Walmart* has a 40 percent chance of making a second offer, and *you* (*Kmart*) has a 60 percent chance of coming back first, with your own price offer.

Note: If a second offer is made by either party, there is a 20 percent chance FTC may belatedly prevent the sale.

Round:

**Walmart**



Your offer of  was rejected by **Kmart**. Please write the second offer to **Kmart**.

Second offer:

Note: offer has to be greater than 0.

There is a 20 percent chance FTC may belatedly prevent the sale.

If the second offer is allowed by the FTC, and **Kmart** accepts the proposal **you** gain \$150 million minus the amount offered to **Kmart**; **Kmart** gains the amount it receives from **you** minus \$50 million, the value of the stores. If the second offer is allowed by the FTC but is rejected anyway by the counterparty, then no one gets anything, and **Kmart** retains ownership of the stores.

Round:

**Kmart**

The second offer was allowed by the FTC.

**The Walmart's** price offer is .

Please indicate if you would like to accept or reject the offer:

Kmart second response	
<input type="button" value="Accept"/>	<input type="button" value="Reject"/>

If **you** accept the offer you will receive  and **Walmart** will receive . If the offer is rejected anyway, then no one gets anything, and **you (Kmart)** retain ownership of the stores.

Round:



You rejected *Walmart's* offer of . Please write your own price offer to *Walmart:*

Your price offer:

Note: offer has to be greater than 0.

Note: There is a 20 percent chance FTC may belatedly prevent the sale. If the second offer is allowed by the FTC, and *Walmart* accepts the proposal *you* gain the amount you receive from *Walmart* minus \$50 million, the value of the stores. *Walmart* gains \$150 million minus *your* price offer; If the second offer is allowed by the FTC but is rejected anyway by *Walmart*, then no one gets anything, and *you* (*Kmart*) retain ownership of the stores.

Round:

**Walmart**



The second offer was allowed by the FTC.

The **Kmart's** price offer is .

Please indicate if you would like to accept or reject the offer:

Walmart response	
Accept	Reject

If **you** accept the offer you will receive  and the **Kmart** will receive . If the offer is rejected anyway, then no one gets anything, and **Kmart** retains ownership of the stores.