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Characterization of the lexicographic egalitarian solution in the two-person bargaining problem. (English) Zbl 1395.91235

Econ. Lett. 159, 7-9 (2017).

Summary: In this study, we provide a new characterization of the lexicographic egalitarian solution in the two-person bargaining problem using the independence of common monotone transformations axiom introduced by *L. T. Nielsen* [Econometrica 51, 219–221 (1983; Zbl 0501.90094)]. We introduce two new axioms, strict Suppes-Sen proofness and restricted equity. Strict Suppes-Sen proofness, which is analogous to *M. Mariotti*'s [Rev. Econ. Stud. 66, No. 3, 733–741 (1999; Zbl 0942.91039)] Suppes-Sen proofness, represents impartiality in the use of the strong Pareto optimality. Restricted equity represents the ethical notion that the more equitable distribution of utility gains relative to the disagreement point should be preferred if the total gain is fixed. Then, we show that the lexicographic egalitarian solution is characterized by strict Suppes-Sen proofness, restricted equity, and independence of common monotone transformations.

MSC:

91B26 Auctions, bargaining, bidding and selling, and other market models
91A12 Cooperative games
91A05 2-person games

Keywords:

bargaining theory; axiomatic characterization; lexicographic egalitarian bargaining solution; independence of common monotone transformations; impartiality; equity

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