

The Most-Favored Nation Rule in Club Enlargement Negotiation

by

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Abstract

We study the effects of the Most-Favored Nation rule in an applicant's negotiation to join a club. When the applicant has to carry out a series of bilateral bargains with the existing members, we find that there are two effects of the MFN rule, viz. the hardened bargainer effect and the free-rider effect. The former effect tends to favor the applicant, while the latter effect tends to hurt the applicant. We find that the free-rider effect is stronger the more asymmetric are the members. The hardened bargainer effect is stronger the larger is the "size of the pie". As the number of members increase, it is more likely that the hardened bargainer effect would dominate. (Paper is available from the author upon request.)

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