Assignment #5

You will negotiate the *Jessie Jumpshot* case in class.

READ:

Read Thompson's discussion of contingency contracts in Chapter 4, pp. 89-91 and Chapter 8, pp. 191-194 and Bazerman and Gillespie's reader article *Betting on the Future: The Virtues of Contingency Contracts*.

PREPARE:

Jessie Jumpshot
The Women's National Basketball League (WNBL) is fast becoming a TV challenge to the NBA. Jessie, a star center for the Cincinnati Five-Ways is in the running for a possible slot as center for the Boston Sharks. Jesse, her agent and the Sharks are about to begin negotiations.

You will be assigned a role as either Jessie, her agent or the business manager for the Sharks. Confidential Instructions for Jessie Jumpshot, for her Agent and for the Boston Sharks will be distributed in class. One student will play the role of Jessie, one the role of her Agent and *two* students will jointly play the role of the Business Agent for the Sharks.

Jessie and her agent may prepare jointly, if they wish, prior to class but they are not to engage in pre-class negotiations with the Sharks.

A pre-negotiation meeting between Jessie and her agent will be allowed in class at the same time as a pre-negotiation meeting between the representatives for the Sharks.

You are all to assume that the Sharks, the Agent and Jessie are risk-neutral, expected value maximizers. In addition, the NPV of the deal dominates all other issues such as team loyalty, salary caps, etc. The parties are negotiating a one year contract with no longer-term impact for the players or the team.

Questions to think about:
In the debrief we will address a number of interesting questions:

1. What is the Sharks' BATNA in their negotiations with Jumpshot? What is their reservation price? What is Jumpshot's BATNA? What should Jumpshot instruct her agent to use as their reservation price? Is there a ZOPA, and, if so, what is it?

2. For this question only, assume that Jumpshot derives additional utility (beyond any monetary compensation) from winning the championship. Directionally, how does Jumpshot's reservation price change if she believes that the Sharks (with her on the team) have a greater likelihood of winning the championship than the Five-Ways (with her on the team)?

3. Are any of the following five packages currently on the table outside the ZOPA?

Package	(10^6) salary	% Merch Profits	(10^6) Championship Bonus
A	2.5	0	0
B	2.0	0	1.5
C	1.5	10%	0.5
D	1.2	5%	0
E	1.0	10%	1.0

4. Limiting yourself to the five packages, which are Pareto-efficient?

5. During the negotiations, the Sharks get the sense that they have different beliefs than Jumpshot about the likelihood of winning the championship and the value of the merchandising profits. Should they reveal their true beliefs on these issues to Jumpshot? If so, how and when?

6. What are the key barriers that might prevent the parties from achieving value-creating opportunities in this negotiation? What can the Sharks and Jumpshot do (either together or on their own) to minimize or eliminate these barriers?

7. Suppose that the Sharks and Jumpshot have tentatively agreed on Package C. You have now been brought into their negotiation as a mediator. Construct a specific deal (consisting of salary, percentage of merchandising profits, and bonus) that both parties would like better than their tentative agreement. In answering this question you are not limited to the five packages currently on the table. What real-world factors might make this agreement difficult to achieve?

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