

The Sophisticates Abroad

We get into the cab and the driver refuses to turn on the meter, promising us a lower fare than the meter. Understanding this apparent contradiction with profit maximization, we are doubtful of his claim. On the other hand, subgame perfection argues that, upon our arrival, we should be in an exceptionally strong bargaining position given that we have not agreed to pay anything more than the metered fare. We arrive. The driver demands 2,500 Israeli shekels (\$2.75). Who knows if the fare is fair, but people bargain in Israel, so we protest; we counteroffer 2,200 shekels. The driver is outraged. It's impossible, he claims, to get here from there for that amount. Before negotiations can continue, the doors are automatically locked, and the driver begins retracing our route at breakneck speed, ignoring traffic lights and pedestrians. Are we being kidnapped to Beirut? No. He returns to our original stop and ungraciously kicks us out of the cab yelling "See how far your 2,200 shekels will get you now!" We get in the next cab, the driver turns on the meter, and, 2,200 shekels later, we are home. A cheap education in the usefulness of subgame perfection.

(Experienced by Barry Nalebuff and John Geanakoplos)