FOR RELEASE: TUESDAY, APRIL 27, 2004

CONTACT: Cary Deck, assistant professor of economics, Sam M. Walton College of Business
(479) 575-6226, cdeck@walton.uark.edu

Amy Farmer, professor of economics, Sam M. Walton College of Business
479) 575-6093; afarmer@walton.uark.edu

Dixie Kline, director of communications, Sam M. Walton College of Business
(479) 575-2539, dkline@walton.uark.edu

UA WALTON COLLEGE ECONOMICS FACULTY RECEIVE NSF GRANT TO STUDY ARBITRATION

FAYETTEVILLE, Ark. – Today, more and more business disputes are being resolved by arbitration in the face of costly litigation. Two economics researchers in the Sam M. Walton College of Business, University of Arkansas, have received a $96,112 grant from the National Science Foundation to study the behavioral and theoretical impact of multiple arbitration formats.

“Labor disputes are the most common type of dispute resolved by arbitration,” said Cary Deck, assistant professor of economics and principal investigator. “In fact, the Supreme Court ruled in 2002 that employers can force employees to use arbitration rather than litigation. We will be studying how the amount of information each party – as well as the arbitrator – has in the arbitration process hastens or impedes the settlement and, as well, affects the outcome.”

Amy Farmer, professor of economics, said: “Arbitration is being used in other areas, in addition to labor disputes, with increasing frequency. Basically, it is faster and costs a lot less than going through the courts. Today, arbitration is being used by a lot of corporations.”
The multiple formats include conventional arbitration and final-form arbitration. The form used can generate different strategies from each party and affect the kind of settlement.

Deck and Farmer have planned a one-year study that will use behavioral research in a computer lab, looking at the way people respond to specific information going into arbitration. Farmer said: “We also want to see how the method of arbitration affects the outcome. This has important ramifications for the employer-employee relationship. The big issue is how do these different forms of arbitration affect strategies when the firm has to take the risk (Will a new employee produce?) and does one form of arbitration favor either employers or employees.”

Deck added: “Look at major league baseball. When a player and the team negotiate the player’s salary, neither side knows what type of year the player will have and how much the player will contribute to the value of the team. If he is a superstar, the team wins on its investment, but the payoff to the team is actually a lottery while the payoff to the player is fixed – in terms of salary. What is so interesting about baseball is that final-offer arbitration is used, which we show favors the team owners and puts the players at a disadvantage.”

###