

Research Statement

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I am an applied microeconomist with a strong background in Information Economics and Game Theory. In my thesis, I study how asymmetries of information influence the functioning of organizations and institutions, with a particular focus on a market for legal services.

In my job market paper I analyze how uninformed individuals can use the expertise of their lawyers during pre-trial negotiations. My second project describes which tasks do free-lancers pursue, if they are concerned with their reputation. Currently, I work on the third project, in which I analyze the determinants of the decision of the plaintiffs to litigate collectively. This project is at a preliminary stage. Additionally, during my PhD studies I developed an interest in experimental economics. It resulted in a project, which studies how trust impacts network formation.

Negotiations, Expertise and Strategic Misinformation

In a typical civil litigation a plaintiff (the party that suffered a harm) is an individual and a defendant (the party that is liable a compensation for the harm) is an institution. To avoid a costly trial both parties often negotiate an out-of-court settlement. However, during the negotiation their positions are not equal. The institutional defendant has likely faced similar cases before and has lawyers hired, thus he is able to predict the verdict of the court with reasonable accuracy. The individual plaintiff has neither the legal knowledge, nor the experience to evaluate the case. However, she can employ an attorney to advise her during the negotiation.

In this paper I address two questions. First, how does the outcome of the negotiation depend on the incentives of the lawyer and the plaintiff? Second, what incentive should the plaintiff induce on her lawyer to improve her bargaining position?

To address it I build a theoretical model. I assume that the plaintiff has a right for a compensation of a random value from the defendant. This compensation can be executed in the court. To avoid costs of trial the plaintiff and the defendant negotiate a settlement. The defendant observes the state of the world, and makes a take-it-or-leave-it settlement offer to the uninformed plaintiff. Before taking the decision the plaintiff consults her attorney, who provides her an unverifiable advice. However, the attorney may be biased – he may prefer to settle on some offer her client would find unacceptable at a given liability value; or he may want to resolve the case by trial, even if the client would be better-off accepting the settlement.

At first, I treat the bias of the attorney as exogenous. I find that unless the bias is too strong for any information to be transmitted, the plaintiff is not harmed by the misalignment of the incentives. This happens because the defendant adjusts his behavior to ensure the case is settled. In situations where the attorney is more willing to resolve the case by trial than the plaintiff, the defendant raises the settlement offer to a level which either triggers a positive recommendation of the attorney or is acceptable for the plaintiff despite a negative recommendation. Whenever the plaintiff is keener to bring the case to court than the attorney, the defendant partitions the interval of liability values and makes one pooling offer for each element of the partition, so that the advice of the attorney is on average correct at each offer.

Next, I endogenise the bias of the attorney. It is now determined by the contract, which specifies how the prize and the costs of the trial are shared. It turns out that, even though a contract inducing no bias is feasible, it is never optimal. The optimal contract can be of two types. First, the plaintiff may compromise on the precision of the received information and increase her bargaining position by transferring the costs of the trial to her attorney. This happens whenever the expected liability value is low compared to the costs of litigation, like under minor tort cases. Second, whenever the expected liability value is high compared to the costs of litigation, the plaintiff may decide to bear the costs of the trial herself. In this situation the attorney recommends trial for some offers that are acceptable for the plaintiff. In turn, the defendant has to increase the offer to ensure positive recommendation of the plaintiff and avoid a trial. Interestingly, in the latter case the plaintiff may obtain a higher payoff under asymmetric than under symmetric information.

Cherry-picking and Career Concerns

An important part of a free-lancer career is building a reputation. Highly regarded free-lancers can access more clients, and are trusted more relevant task. The market evaluates agents quality by observing their experience and success rates, but rarely observes how difficult were the tasks performed. This problem is especially visible on the market for legal services – lawyers often advertise their experience and successes, but the public can hardly access the details of cases previously handled by a lawyers. In my second project, I address the question on how the career concerns influence the selection of tasks the free-lancers decide to perform.

To address the question I build a model in which the agents, characterized by a skill level, have to decide on performing or dropping the task of a random difficulty. Performing a task is costly, but if the agent performs it successfully he receives a monetary payment. The probability that the task is performed successfully depends on both the skill and the difficulty of the task. Importantly, the market observes only the outcome of the task, and the agents care not only about the monetary payoff, but also about the beliefs that the market has about his type.

I find that the agents face a trade-off between being more successful by performing only selected tasks, and being more experienced, that is performing the tasks more often. On one

hand, low skilled agents are failing more often. Thus to appear more skilled the agents can perform only very simple tasks which yield success with high probability. On the other hand, the market realizes that low skilled agents are more selective. Thus to appear more skilled the agents can perform tasks more often. In effect, the presence of career concerns introduces inertia in agents behavior – they perform too few cases if the reward for being successful is high, but too many cases if the reward is low.

Propensity to Trust and Network Formation

Trust is believed to be one of the fundamental elements of social capital. Social psychology scholars suggest that trusting people not only are more cooperative, but also tend to form more relations. Together with Juan Camilo Cardenas (Universidad de Los Andes), Davide Pietrobon (Universitat Autònoma de Barcelona) and Tomás Rodríguez Barraquer (Universidad de Los Andes), we investigate this claim.

To investigate the causal relation between trust and friendship formation we conduct a trust experiment on a cohort of 72 future students before the beginning of an academic year. It allows us to measure generalized trust, that is a propensity to put oneself at a risk of being exploited by a stranger. After a semester we also collect survey data on relationships formed by the students.

We estimate Exponential Random Graph Models taking into account large set of observables and controlling for typical network characteristics. We find that the effect of trust on forming a relationship is an order of magnitude smaller than the effect of homophily in socioeconomic background. We suppose that previous findings suggesting correlation between amount of friends and propensity to trust, suffer from reverse causality. That is, the individuals who have more friends become more trusting over time.

Work in progress and future research agenda

In the United States and some European countries when multiple plaintiffs suffer a harm from the same defendant, instead of litigating separately they can join their forces and litigate collectively. Although collective litigation generates economies of scale, it also results in delay of the process, since early plaintiffs have to wait until the late plaintiff join. Thus, collective action is a good choice only if there are enough participants. However, any individual plaintiff does not realize how many other potential litigant could join him.

Together with Andrés Espita de La Hoz (Northwestern University), I study how the plaintiffs learn about the range of the harm. In the nearest future we plan to account for the strategies the defendant can use in order to manipulate information. We are also interested in the consequences of different forms of collective litigation on cooperation between the plaintiffs. A question especially relevant especially in European Union, where after Volkswagen emission crisis both the member states and community institutions started a debate on widening an access to collective litigation for harmed consumers.