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## An active-learning exercise on learning negotiation as a way to mitigate the gender wage gap for introductory microeconomics

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### ABSTRACT

Economic research provides several reasons to explain why the gender wage gap still persists. One reason is the negotiation gap, whereby women are less likely to use and benefit from negotiation compared to men. This paper describes an active-learning exercise in which students are empowered to learn and practice basic negotiation strategy in a distributive bargaining framework. Students actively participate in brainstorming, small group discussion, role play, and reflection. Although designed for use in an introductory microeconomics course, the exercise could also be used in a labor or gender economics course.

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## 1. Introduction

A career move took me from teaching introductory microeconomics to large sections at a state school to teaching the same course to much smaller sections at a liberal arts women's college. This move changed not only my environment and student, but also my general approach to teaching. By adding an active-learning seminar series to a simplified version of the orthodox material, I aim to teach economic literacy and transferable skills, both of which prepare students for their personal and

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professional lives. The purpose of this paper is to describe one of these seminar series topics – an active-learning exercise on negotiation.

In this exercise, students learn basic negotiation theory and strategy in a distributive bargaining framework and its application to microeconomics. They also learn about the benefits from using it, as well as the substantial costs from avoiding it. It includes several active-learning activities – brainstorming, small group discussion, role play, and reflection. The outcome of the exercise is appropriate for traditional and non-traditional students, majors and non-majors, and pertinent in any career path or industry.

This paper presents the exercise in the context of explaining the persistence of the gender wage gap. Consequently, it may be of particular interest to female students, who may feel marginalized for a variety of reasons in the male-dominated subject of economics (Dynan and Rouse, 1997). However, the exercise may also be taught in an alternative context in conjunction with other related microeconomics principles, e.g., the price mechanism, game theory, opportunity cost, information asymmetry, and/or irrational behavior.<sup>1</sup>

The exercise is ideally taught in a 90min class period, but it can be adjusted to fit a 50min class period if necessary. It is appropriate for any class size and generally complements the curriculum in an introductory microeconomics, undergraduate labor economics, or undergraduate gender economics course.

## 2. Background

### 2.1. The negotiation gap

According to the Organization for Economic Cooperation and Development (OECD), women in all OECD countries earn, on average, 16% less than men (OECD Employment Database, 2010). The average difference exceeds 18% in several countries, including the United Kingdom, the United States, Germany, Japan, and Korea. Although the gap has narrowed, progress is slow and the gap is still large. When edifying my introductory microeconomics students to these facts, it is not uncommon for them to express some degree of ignorance to the history and current state of the wage gap. While a discussion of the wage gap is typically included in most introductory textbooks, supplementary material is often necessary to comprehensively explain why the wage gap still exists (see Robson, 2001 for a study on the underrepresentation of gender-related material in introductory economics texts). The instructor can offer a list of plausible reasons, both structural (external) and individual (internal) for the wage gap based on economic research (see, for example, Goldberg Dey and Hill, 2007). We know that structural and historical factors such as discrimination, societal norms, and occupational segregation hold women back from earning equal wages. But moreover, women create their own barriers through the voluntary choices they make related to child care and household work or their lack of comfort and ambition to be aggressive career-type professionals. It is my experience that at this point in my lecture, female students are left feeling disappointed with the status quo and eager to learn how they can create a more equal career experience for themselves.

While it is important to mitigate both the external and internal obstacles that impede equal wages, this exercise focuses on one internal obstacle – the negotiation gap – which students, particularly females, can help eradicate on their own. The negotiation gap is a gender divide whereby women more often fear and avoid negotiation and therefore have a lower propensity to ask for higher wages and salaries, better benefits, and promotions. Economic research finds evidence of this gap and speculates why and how this internal barrier arises in women, but not men (for an overview of the literature, see

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<sup>1</sup> Negotiation is often useful in markets with asymmetric information, e.g., insurance, housing, labor relations, and international relations. The instructor can emphasize the benefits of negotiation when information is imperfect in an exchange. Whether the ignorant party initiates negotiation, i.e., signals, or the informed party initiates negotiation, i.e., screens, additional information is revealed, resulting in a superior outcome. Furthermore, both microeconomics and negotiation are subject to irrationality. Behavioral economics argues that economic agents are often irrational, which ultimately clouds optimal decision-making. Negotiation is no exception. For example, when negotiating mergers and acquisitions, half of all acquiring companies overpay for target firms. The reason, according to Lovoalvo et al. (2007), is due to mental biases like confirmation bias, overconfidence, loss aversion, and anchoring.

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