



DEAR ECONOMIST

Resolving readers' dilemmas with the tools of Adam Smith

Dear Economist,
I'm afraid to say that my wife and I are getting divorced. We are struggling to work out how to divide our possessions, especially the house. Our arguments are only making a bad situation worse. Is there a solution?
Yours sincerely,
Mr B. Graham, Kent

Dear Mr Graham,
You have my sympathy. Because so many of these shared items have sentimental value, it is hard to come to an amicable agreement. Bluntly speaking, you are both lying about your true preferences to manipulate the bargaining process and get more of the stuff you want.

Economists were, for a while, pessimistic about solving such problems as the incentive to lie typically makes it impossible to efficiently trade an object of sentimental value. The buyer wants to downplay the value and the seller wants to exaggerate it, and the trade is scuppered.

But game theorists Robert Gibbons, Peter Cramton and Paul Klemperer have demonstrated that when an object is jointly owned and one partner must buy out the other, an efficient outcome is easy enough to reach.

Professor Klemperer says that you and your wife must each write down an offer for half the house. If you name the higher price, you get the house and must pay your wife for her half of it. The price you pay is the average of the prices you each wrote down.

You will be far less tempted to lie, because if you bid too low you have to sell the house cheaply. However if you bid too high you pay dearly for it. You can follow the same process for every object if you wish.

I have only one word of caution. As Professor Klemperer is happily married to his first wife, his advice is presumably straight from the ivory tower.

This week's Economist is Tim Harford, a Peter Martin Fellow at the FT. Send questions to: economist@ft.com

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Dissolving a Partnership Efficiently



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Dear Economist,
Christians are called to support one another and to settle their differences. Further, churches cannot survive without money. What advice would you give to the Anglican Communion, as it attempts to address the issue of homosexual priests?
Anne Chaffey, by e-mail

Dear Ms Chaffey,
I am not sure why a church would worry about money. If God can raise the dead, I'm sure He can manage a non-inflationary monetary expansion. Yet leaving money to one side, the Anglican Communion retains great spiritual value. The question the churches need to ask is whether that value is greater if they stick together, or arrange a separation.

Such a separation needs to be amicable, and would surely be so only if the churches could agree to share out indivisible assets fairly, including church buildings, valuable brand names, and archbishops. Fortunately, Peter Cramton, Robert Gibbons and Paul Klemperer solved the problem of fairly and efficiently reallocating jointly owned assets in their *Econometrica* paper "Dissolving a partnership efficiently". They use a kind of auction to determine who gets the asset and how much compensation is paid to the others.

The only concern is that some factions may prefer a schism even if spiritual value is maximised by a unified communion. This is what economists call "strategic refusal to interconnect". As a parallel, consider two different standards for computer software. Social value is maximised if the software programs can talk to each other, but the owner of the more common one may figure that by refusing to recognise the alternative, he can wipe it out.

In corporate cases, the competition policy authorities typically get involved. In this case the Anglican Communion may decide to seek its own higher authority... whoever He may be.

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