

Econ 263

Spring 2006

Experimental Economics

Professor James Andreoni

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Course Description: This course will be a survey of some of the recent literature on Experimental Economics. The background for the course is graduate microeconomic theory and game theory.

Text: There is no text for the course, but students are encouraged to purchase these:

John Kagel and Alvin Roth, *Handbook of Experimental Economics*, Princeton, 1995.

Camerer, Colin, *Behavioral Game Theory*, New York, Russell Sage & Princeton University Press, 2003.

Format: This course will be taught in a seminar format, with plenty of interaction and discussion among the students. Students will be expected to make at least one presentation during the term, leading the discussion on a paper or topic. Students are expected to read the assigned papers before each meeting.

Course Project: There will be no exams for the course, but students will be required to submit a course project. Students must complete two projects.

PROJECT 1: Write a paper that surveys the literature on one area of interest of any topic concerning experimental economics, and to suggest tests of open questions. Topics need not be restricted to those covered in the course, but should be approved by Professor Andreoni. Maximum length should be 10 pages, unless approved.

PROJECT 2: Design an experiment. The design should include a statement of the research question, a prediction based in economic theory, the task the subjects will complete, a copy of the protocol (instructions for subjects, directions for experimenters), number of subjects per condition, and a description of how the data will be analyzed to test the prediction. Students are encouraged to form teams of two or three to design their studies. At the end of the semester, each team of designers must present their experimental ideas to the class.

Course Outline: Following is a course outline. This is a living document that will likely change and evolve as the semester proceeds-expect updates often. There are far too many papers listed here to cover in one quarter, so as the term progresses we will respond to both time and student interest to direct our attention and the depth of our discussions on

the topics below.

PROPOSED OUTLINE FOR THE COURSE:

1. Background and Introduction
2. Altruism, Fairness, Trust
 - a. Ultimatum Games
 - b. Dictator Games
 - c. Trust Games
 - d. Anonymity and Social Distance
 - e. Models of Inequality Aversion
 - f. A Rational Approach to Giving and Altruism
 - g. Altruism and the Number of Recipients
2. Public Goods
 - a. Linear
 - b. Provision Point
 - c. Mechanism Design
 - d. Fund-raising
 - e. Field Studies
3. Building Cooperation
 - a. Reputation building
 - b. Sorting
 - c. Punishments and rewards
4. Uncertainty and Expected Utility
5. Coordination
6. Communication
 - a. And altruism

- b. And coordination

- c. And deception

7. Over-Confidence

8. Belief Polarization

9. Information and Signaling

10. Time Consistency/Hyperbolic Discounting

11. Endowment Effect

12. Sex and Beauty

13. Auctions

14. Errors and Learning

- a. Adaptive and Evolutionary Learning

- b. Belief Based Learning

- c. Reinforcement Learning

- d. Combinations of Belief and Reinforcement

- e. Quantile Response Equilibrium

16. Neuro-economics

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****CURRENT VERSION OF SYLLABUS: April 4, 2006 ****

0. Background and Introduction

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Rabin, Matthew. "Psychology and Economics." *Journal of Economic Literature*, 1998, 36(1), pp. 11-46. [pdf](#)

Kahneman, Daniel. "Maps of Bounded Rationality: Psychology for Behavioral Economics." *American Economic Review*, 2003, 93(5), pp. 1449-1475. [pdf](#)

Binmore, Ken. "Economic Man – or Straw Man? Commentary on Heinrich, et al." *Behavioral and Brain Sciences*, 2005, 28, pp. 815-818. [html](#)

Hertwig, Ralph and Andreas Ortmann. "Experimental Practices in Economics: A Methodological Challenge for Psychologists?" *Behavioral and Brain Sciences*, 2001, 24(3), pp. 383-402. [pdf](#)

Roth, Alvin E. "Let's Keep the Con out of Experimental Econ.: A Methodological Note." *Empirical Economics*, 1994, 19(2), pp. 279-289. [html](#)

1. Altruism, Fairness, Trust

a. Ultimatum Games and Dictator Games

Guth, Werner, R. Schmittberger and B. Schwartz. "An Experimental Analysis of Ultimatum Bargaining." *Journal of Games and Economic Behavior*, 1982, 3(4), pp. 367-388. [pdf](#)

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Ochs, Jack and Alvin E. Roth. "An Experimental Study of Sequential Bargaining." *American Economic Review*, 1989, 79(3), pp. 355-384. [pdf](#)

Roth, Alvin E., V. Prasnikar, M. Okunofujiwara and S. Zamir. "Bargaining and Market Behavior in Jerusalem, Ljubljana, Pittsburgh, and Tokyo: An Experimental Study." *American Economic Review*, 1991, 81(5), pp. 1068-1095. [pdf](#)

Slonim, Robert and Alvin E. Roth. "Learning in High Stakes Ultimatum Games: An Experiment in the Slovak Republic." *Econometrica*, 1988, 66(3), pp. 569-596. [pdf](#)

b. Trust Games

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Van Huyck, John B.; Raymond C. Battalio and Mary F. Walters. "Commitment versus Discretion in the Peasant-Dictator Game." *Games and Economic Behavior*, 1995, 10(1), pp. 143-170. [pdf](#)

Fehr, Ernst, et al. "Does Fairness Prevent Market Clearing? An Experimental Investigation." *Quarterly Journal of Economics*, 1993, 108(2), pp. 437-459. [pdf](#)

Glaeser, Edward L., et al. "Measuring Trust." *Quarterly Journal of Economics*, 2000, 115(3), pp. 811-846. [pdf](#)

Cox, James C. "How to Identify Trust and Reciprocity." *Games and Economic Behavior*, 2004, 46(2), pp. 260-281. [pdf](#)

Fehr, Ernst, Simon Gächter and Georg Kirchsteiger. "Reciprocity as a Contract Enforcement Device: Experimental Evidence." *Econometrica*, 1997, 65(4), pp. 833-860. [pdf](#)

Bohnet, Iris, Bruno S. Frey and Steffen Huck. "More Order with Less Law: On Contract Enforcement, Trust, and Crowding." *American Political Science Review*, 2001, 95(1), pp. 131-144. [pdf](#)

Andreoni, James. "Trust, Reciprocity, and Contract Enforcement: Experiments on Satisfaction Guaranteed." 2005, Working Paper. [pdf](#)

Sobel, Joel. "[Interdependent Preferences and Reciprocity](#)." *Journal of Economic Literature*, 2005, 43(2), pp. 392-436. [pdf](#)

Engelmann, Dirk and Andreas Ortmann. "The Robustness of Laboratory Gift Exchange: A Reconsideration." 2002, Working Paper, CERGE-EI, Prague, Czech Republic. [pdf](#)

c. Other Sequential Games

Prasnikar, V. and Alvin E. Roth. "Considerations of Fairness and Strategy: Experimental Data From Sequential Games." *Quarterly Journal of Economics*, 1992, 107(3), pp. 865-888. [pdf](#)

Andreoni, James, Paul Brown and Lise Vesterlund. "What Makes an Allocation Fair? Some Experimental Evidence." *Games and Economic Behavior*, 2002, 40(1), pp. 1-24. [pdf](#)

d. Anonymity and Social Distance

Hoffman, E., K. McCabe, K. Shachat, and V. Smith. "Preferences, Property Rights and Anonymity in Bargaining Games." *Games and Economic Behavior*, 1994, 7(3), pp. 346-380. [pdf](#)

Hoffman, E., K. McCabe, and V. Smith. "Social Distance and Other-Regarding Behavior in Dictator Games." *American Economic Review*, 1996, , pp. 653-660. [pdf](#)

Bohnet, Iris and Bruno S. Frey. "Social Distance and Other-Regarding Behavior in Dictator Games: Comment." *American Economic Review*, 1999, 89(1), pp. 335-339. [pdf](#)

Bolton, Gary E. and Rami Zwick. "Anonymity versus Punishment in Ultimatum Bargaining." *Games and Economic Behavior*, 1995, 10(1), pp. 95-121. [pdf](#)

Bohnet, Iris and Frey, B. "The Sound of Silence in Prisoner's Dilemma and Dictator Games." *Journal of Economic Behavior and Organization*, 1999, 38(1), pp. 43– 57. [pdf](#)

e. **Models of Inequality Aversion**

Fehr, Ernst and Klaus Schmidt. "A Theory of Fairness, Competition, and Cooperation." *Quarterly Journal of Economics*, 1999, 114(3), pp. 817-868. [pdf](#)

Bolton, Gary E. and Axel Ockenfels. "ERC—A Theory of Equity, Reciprocity and Competition." *American Economic Review*, 2000, 90(1), pp. 166-193. [pdf](#)

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Levine, D. "Modelling Altruism and Spitefulness in Game Experiments." *Review of Economic Dynamics*, 1998, 1(3), pp. 593–622. [pdf](#)

Dufwenberg, M. and G. Kirchsteiger. "A Theory of Sequential Reciprocity." *Games and Economic Behavior*, 2004, 47(2), pp. 268-98. [pdf](#)

Li, Jing. "The Power of Convention: A Theory of Social Preferences." *Journal of Economic Behavior and Organization*, 2005, forthcoming. [pdf](#)

Joel Sobel, "Putting Altruism in Context," *Brain and Behavioral Science*, 2002, 25(2), pp. 275-276. [pdf](#)

f. A Rational Approach to Giving and Altruism

Andreoni, James. "Giving with Impure Altruism: Applications to Charity and Ricardian Equivalence." *Journal of Political Economy*, 1989, 97(6), pp. 1447-58. [pdf](#)

Andreoni, James. "Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving." *Economic Journal*, 1990, 100(401), pp. 464-477. [pdf](#)

Andreoni, James and J.H. Miller. "Giving According to GARP: An Experimental Test of the Consistency of Preferences for Altruism." *Econometrica*, 2002, 70(2), pp. 737-753. [pdf](#)

Andreoni, James, Marco Castillo and Ragan Petrie. "What do Bargainers' Preferences Look Like? Experiments with a Convex Ultimatum Game." *American Economic Review*, 2003, 93(3), pp. 672-685. [pdf](#)

Andreoni, James, Marco Castillo and Ragan Petrie. "Revealing Preferences for Fairness in Ultimatum Bargaining." 2005, Working Paper. [pdf](#)

g. Giving and the Number of Recipients

Andreoni, James. "Is Altruism Congestible? On Giving and Group Size." 2006, Working Paper. [pdf](#)

2. Public Goods

Ledyard, John. "Public Goods: A Survey of Experimental Research." Chapter 2 in KR.

a. Linear Public Goods Games

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Isaac, R. Mark and James Walker. "Group Size Effects in Public Goods Provision: The Voluntary Contributions Mechanism." *Quarterly Journal of Economics*, 1988, 103(1), pp. 179-199. [pdf](#)

Isaac, R. Mark, James Walker and Arlington Williams. "Group Size and the Voluntary Provision of Public Goods: Experimental Evidence Utilizing Large Groups." *Journal of Public Economics*, 1994, 54(1), pp. 1-36. [pdf](#)

Andreoni, James. "Why Free Ride?: Strategies and Learning in Public Goods Experiments." *Journal of Public Economics*, 1988, 37(3), pp. 291-304. [pdf](#)

Andreoni, James. "Cooperation in Public Goods Experiments: Kindness or Confusion?" *American Economic Review*, 1995, 85(4), pp. 891-904. [pdf](#)

Andreoni, James. "Warm-Glows versus Cold Prickle: The Effects of Positive and Negative Framing in Public Goods Experiments." *Quarterly Journal of Economics*, 1995, 110(1), pp. 1-21. [pdf](#)

Palfrey, Thomas and Jeffrey Prisbrey. "Anomalous Behavior in Public Goods Experiments: How Much and Why?" *American Economic Review*, 1997, 87(5), pp. 829-846. [pdf](#)

Palfrey, Thomas and Jeffrey Prisbrey. "Altruism, Reputation, and Noise in Linear Public Goods Experiments." *Journal of Public Economics*, 1996, 61(3), pp. 409-427. [pdf](#)

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- Palfrey, Thomas and Howard Rosenthal. "Testing for Effects of Cheap Talk in a Public Goods Game with Private Information." *Games and Economic Behavior*, 1991, 3(2), pp. 183-220. [pdf](#)
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b. Provision Point

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- Bagnoli, Mark and Michael McKee. "Voluntary Contributions Games: Efficient Private Provision of Public Goods." *Economic Inquiry*, 1991, 29(2), pp. 351-366. [pdf](#)
- Bagnoli, Mark, Shaul Ben-David and Michael McKee. "Voluntary Provision of Public Goods: The Multiple Unit Case." *Journal of Public Economics*, 1994, 47(1), pp. 85-106. [pdf](#)
- Rondeau, Daniel, William D. Schulze and Gregory L. Poe. "Voluntary Revelation of the Demand for Public Goods Using a Provision Point Mechanism." *Journal of Public Economics*, 1999, 72(3), pp. 455-470. [pdf](#)
- Rondeau, Daniel, Gregory L. Poe and William D. Schulze. "VCM or PPM? A comparison of the performance of two voluntary public goods mechanisms." *Journal of Public Economics*, 2005, 89(8), pp. 1581-1592. [pdf](#)

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- Sefton, Martin and Abdullah Yavas. "Abreu-Matsushima Mechanisms: Experimental Evidence." *Games and Economic Behavior*, 1996, 16(2), pp. 280-302. [pdf](#)

Chen, Yan and Charles Plott. "The Groves-Ledyard Mechanism: An Experimental Study of Institutional Design." *Journal of Public Economics*, 1996, 59(3), pp. 335-364. [pdf](#)

Chen, Yan and Fang-Fang Tang. "Learning and Incentive-Compatible Mechanisms for Public Goods Provision: An Experimental Study." *Journal of Political Economy*, 1998, 106(3), pp. 633-662. [pdf](#)

Andreoni, J. and Hal Varian "Pre-Play Contracting in the Prisoners' Dilemma." with H.R.Varian, *Proceedings of the National Academy of Sciences*, v.96, September 1999, 10933-10938. [pdf](#)

d. Fund-raising and Organic Mechanisms

Morgan, John. "Financing Public Goods by Means of Lotteries." *Review of Economic Studies*, 2000, 67(4), pp. 761-784. [pdf](#)

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Andreoni, James and Ragan Petrie. "Public Goods Experiments Without Confidentiality: A Glimpse Into Fund-Raising." *Journal of Public Economics*, 2004, 88(7-8), pp. 1605-1623. [pdf](#)

Vesterlund, Lise, Jan Potters and Martin Sefton. "After You--Endogenous Sequencing in Voluntary Contribution Games." *Journal of Public Economics*, 2005, 89(8), pp. 1399-1419. [pdf](#)

John, Jack Ochs, and Lise Vesterlund, Lise, "Giving Little by Little: Dynamic Voluntary Contribution Games." 2005, Working Paper. [pdf](#)

Duffy, John and Tatiana Kornienko. "Does Competition Affect Giving? An Experimental Study." 2005, Working Paper. [pdf](#)

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e. Field Studies

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3. Building Cooperation

a. Reputation building

Selten, R. and R. Stoecker. "End Behavior in Sequences of Finite Prisoner's

Dilemma Supergames: A Learning Theory Approach." *Journal of Economic Behavior and Organization*, 1986, 7(1), pp. 47-70. [pdf](#)

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Camerer, C., and K. Weigelt. "Experimental Tests of a Sequential Equilibrium

Reputation Model." *Econometrica*, 1988, 56(1), pp. 1-36. [pdf](#)

Cooper, R., D. DeJong and R. Forsythe "Cooperation Without Reputation: Experimental Evidence from Prisoner's Dilemma Games." *Games and Economic Behavior*, 1996, 12(2), pp. 187-218. [pdf](#)

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b. Signalling and Sorting among Cooperators

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c. Punishments and rewards

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Masclet, David, Charles Noussair, Steven Tucker, and Marie-Claire Villeval. "Monetary and Non-Monetary Punishment in the Voluntary Contributions Mechanism." *American Economic Review*, 2003, 93(1), pp. 366-380. [pdf](#)

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5. Coordination

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6. Communication

- a. And altruism
- b. And coordination

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c. And deception

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7. Over-Confidence

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8. Belief Polarization

9. Information and Signalling

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11. Endowment Effect

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12. Sex and Beauty

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13. Auctions

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