

UCSD Econ 182 DescriptionEcon 182

EXPERIMENTAL ECONOMICS

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Course Description: This course will be a survey of some of the recent literature on Experimental Economics. This is one of the fastest growing areas of economic research. Traditionally, economic science was conducted purely by observing behavior “in the field”. For the last 30 years—and most intensively for the last 10-15 years—economists have increasingly turned to doing controlled experiments to learn about economic behavior. There have been thousands of studies. We will attempt to cover some of these, hopefully choosing topics that we all will find most relevant to our own economic interactions.

Text: There is no text for the course—no texts actually exist for this topic, since it is changing so fast. There will be readings for every lecture, however. These will be drawn mostly from academic journals. I will make every attempt to have these posted for you on the course website well before each lecture. You will be reading a lot of papers that are pretty advanced.

Fortunately, the experiments are (by design) pretty easy to understand, although some of the economic theory and econometric analysis may be fairly advanced. In such cases I will try to give you a “reader’s guide” to each paper.

Lab Fee: There will be a \$40 lab fee for this course that we will use to add incentives to our classroom experiments. I will also add \$40 to the pot. The total lab fees will be refunded to the class at the end of the term as a function of how many points people earn in the demonstrations. See the detail.

Format: This course will be taught in a seminar format, with plenty of interaction and discussion among the students. We will often do classroom demonstrations of the experiments we are studying. I invite students to ask a lot of questions, challenge the economic models and predictions, and perhaps we will even be motivated to dream up new economic theories and experimental tests!

Exams and Grades: The course will have two exams, one at midterm and one during finals week, and two short papers. Exams will each be worth 40%. Each paper is worth 10%.

Short papers: You will also be graded on two short papers. Each short paper should be about 3 pages. It should summarize the hypothesis, experimental design, and empirical finding of one experimental paper published in a leading economics journal, but not discussed in detail in class. You can search for a topic in the references of one of the papers we read, or by using the Web of Science (<http://portal.isiknowledge.com/portal.cgi?>) to look up other papers that may have cited paper we have read. Professor Andreoni should approve (by

email or in person) your topic before you begin your paper. Your first paper can be completed any time up to the first midterm, and the second any time before the second midterm.

Course Outline: Following is a course outline. This is a living document that will likely change and evolve as the quarter 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.

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TOPICS WE MAY COVER:

- Background and Introduction
- Altruism, Fairness, Trust
 - Ultimatum Games
 - Dictator Games
 - Trust Games
 - Anonymity and Social Distance
 - A Rational Approach to Giving and Altruism
- Public Goods
 - a. Linear
 - b. Provision Point
 - c. Mechanism Design
 - d. Fund-raising
 - e. Field Studies
- Building Cooperation
 - a. Reputation building
 - b. Sorting
 - c. Punishments and rewards
- Uncertainty and Expected Utility
- Coordination
- Information and Signaling
 - Information Cascades
- Time Consistency/Hyperbolic Discounting
- Endowment Effect
- Sex and Beauty

Reading List

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On the following pages is a tentative reading list. This will also be posted on line, with links to the readings

IMPORTANT: Only those marked ** are assigned readings. The other papers are related to the topic and may be discussed in class. However, you are directed only to the papers marked with **

Experimental Economics
Econ 182 -- Winter 2007

!! CURRENT VERSION OF SYLLABUS: January 12, 2007 !!

0. Background and Introduction

Roth, A.E., "On the Early History of Experimental Economics," Journal of the History of Economic Thought, 15, Fall 1993, 184-209.

Larry Samuelson, "Economic Theory and Experimental Economics," Journal of Economic Literature, 43 (2005), 65-107.

Roth, A.E., "Lets Keep the Con out of Experimental Econ.: A Methodological Note" Empirical Economics (Special Issue on Experimental Economics), 1994, 19, 279-289.

1. Altruism, Fairness, Trust

Ultimatum Games and Dictator Games

Guth, Werner, R. Schmittberger, and B. Schwartz. "An Experimental Analysis of Ultimatum Bargaining" Journal of Games and Economic Behavior, December 1982, 3(4), pp. 367—88.

**Forsythe, Robert, Joel Horowitz, N.S. Savin and Martin Sefton. "Fairness in Simple Bargaining Games." Games and Economic Behavior, May 1994, 6(3), pp. 347—69.

Ochs, Jack and Alvin E. Roth. "An Experimental Study of Sequential Bargaining." American Economic Review, June 1989, 79(3), pp. 355—84.

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, December 1991, 81(5), pp. 1068—95.

**Slonim, Robert and Alvin E. Roth, “Learning in High Stakes Ultimatum Games: An Experiment in the Slovak Republic.” *Econometrica*, 66, 3, May 1988, 569-96.

**Andreoni, James; Marco Castillo; and Ragan Petrie. “What Do Bargainers’ Preferences Look Like? Experiments with a Convex Ultimatum Game.” *The American Economic Review*, Vol. 93, No. 3. (Jun., 2003), pp. 672-685.

Trust Games

**Berg, Joyce, John Dickhaut, and Kevin McCabe. “Trust, Reciprocity, and Social History,” *Games and Economic Behavior*, 1995, 10, 122-142.

Ferh, Ernst, et al., “Does Fairness Prevent Market Clearing? An Experimental Investigation.” *QJE*, May 1993, 437-59.

**Glaeser, Edward L., David I. Laibson, José A. Scheinkman, and Christine Soutter, “Measuring Trust.” *Quarterly Journal of Economics*, August 2000, 115, 811–846.

Cox, James C. “How to Identify Trust and Reciprocity.” *Games and Economic Behavior*, 2004, 46, 260–281.

Fehr, Ernst, Simon Gächter, and Georg Kirchsteiger. “Reciprocity as a Contract Enforcement Device: Experimental Evidence.” *Econometrica*, 1997, 65, 833–860.

Bohnet, Iris, Bruno S. Frey, and Steffen Huck, “More Order with Less Law: On Contract Enforcement, Trust, and Crowding,” *American Political Science Review*, March 2001, 95(1), 131–144.

Andreoni, James “Trust, Reciprocity, and Contract Enforcement: Experiments on Satisfaction Guaranteed.” March 2005.

What Makes an Allocation Fair?

Prasnikar, V. and Roth, A.E., “Considerations of Fairness and Strategy: Experimental Data From Sequential Games,” *Quarterly Journal of Economics*, August 1992, 865-888.

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

Anonymity and Social Distance

Hoffman, E. K. McCabe, K. Shachat, and V. Smith, "Preferences, Property Rights and Anonymity in Bargaining Games." *GEB*, 1994, 346-380.

**Hoffman, E. K. McCabe, and V. Smith, "Social Distance and Other Regarding Behavior in Dictator Games." *AER*, 1996, 653-660.

Iris Bohnet, Bruno S. Frey, "Social Distance and other-regarding Behavior in Dictator Games: Comment," *American Economic Review*, Vol. 89, No. 1 (Mar., 1999), pp. 335-339.

Bohnet, I., Frey, B., 1999a. "The sound of silence in prisoner's dilemma and dictator games." *Journal of Economic Behavior and Organization* 38, 43– 57.

Models of Inequality Aversion

Fehr, Ernst & Schmidt, Klaus (1999), "A Theory of Fairness, Competition, and Cooperation," *Quarterly Journal of Economics*, 114, 817-868.

Bolton, Gary E. & Ockenfels, Axel (2000), "ERC³/₄A Theory of Equity, Reciprocity and Competition," *American Economic Review*, 90, 166-193.

Rabin, Matthew (1993), "Incorporating Fairness into Game Theory and Economics," *American Economic Review*, 83, 1281-1302.

Charness, Gary & Matthew Rabin (2002), "Understanding Social Preferences with Simple Tests," *Quarterly Journal of Economics*, 117, 817-869.

Joel Sobel, "Putting Altruism in Context," *Brain and Behavioral Science*, 2003

A Rational Approach to Giving and Altruism

**Andreoni, James, and J.H. Miller, "Giving According to GARP: An Experimental Test of the Consistency of Preferences for Altruism." *Econometrica*, v. 70, no.2, March 2002, 737-753. pdf

Andreoni, James, Marco Castillo, and Ragan Petrie. "What do Bargainers' Preferences Look Like? Exploring a Convex Ultimatum Game." *American Economic Review*, June 2003, 93(3), 672-685.

2. Public Goods

Linear Public Goods Games

Marwell, Gerald and Ruth Ames, ``Economists Free Ride, Does Anyone Else? Experiments on the Provision of Public Goods." Journal of Public Economics, 1981, 295-310.

**Isaac, R. Mark and James Walker, ``Group Size Effects in Public Goods Provision: The Voluntary Contributions Mechanism." QJE, 1988, 179-99.

Isaac, R. Mark and James Walker, and Arlington Williams, ``Group Size and the Voluntary Provision of Public Goods: Experiments Utilizing Very Large Groups." Journal of Public Economics, 1994, 54, 1-36.

**Andreoni, James, ``Why Free Ride?: Strategies and Learning in Public Goods Experiments." Journal of Public Economics, 1988.

**Andreoni, James, ``Cooperation in Public Goods Experiments: Kindness or Confusion?" AER, 1995.

Andreoni, James, ``Warm-glow versus Cold Prickles: The Effects of Positive and Negative Framing in Public Goods Experiments." QJE, 1995.

Palfrey, Thomas and Jeffrey Prisbrey, ``Anomalous Behavior in Public Goods Experiments: How Much and Why?" AER, December 1997, 829-46.

Palfrey, Thomas and Jeffrey Prisbrey, ``Altruism, Reputation, and Noise in Linear Public Goods Experiments," Journal of Public Economics, 61(3), September 1996, 409-27.

Andreoni, James, ``An Experimental Test of the Public Goods Crowding Out Hypothesis." AER, 1993.

Palfrey, Thomas and Howard Rosenthal, ``Testing the Effects of Cheap Talk in a Public Goods Game with Private Information." GEB, 3, 183-220.

Anderson, Simon P., Jacob K. Goeree and Charles A. Holt, ``A Theoretical Analysis of Altruism and Decision Error in Public Goods Games." Journal of Public Economics, 1998, 297-323.

Charlie Holt, J. Goeree and S. Laury, ``Private Costs and Public Benefits: Unraveling the Effects of Altruism and Noisy Behavior," Journal of Public Economics, 83(2), 2002, 257-278.

Provision Point

Davis, Douglas and Charles Holt, Experimental Economics, Princeton: Princeton University press, pp. 338-343.

Dawes, Robin, John Orbell, R.T. Simmons, and A.J.C. van de Kragt, ``Organizing Groups for Collective Action." American Political Science Review, 80, 1986, 1171-85.

Bagnoli, Mark and Michael McKee, ``Voluntary Contributions Games: Efficient Private Provision of Public Goods." Economic Inquiry, 29, 1991, 351-366.

Bagnoli, Mark, Shaul Ben-David and Michael McKee, ``Voluntary Provision of Public Goods: The Multiple Unit Case." *Journal of Public Economics*, 47, 1994, 85-106.

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, 455-470.

Rondeau, Daniel & Poe, Gregory L. & Schulze, William D. "VCM or PPM? A comparison of the performance of two voluntary public goods mechanisms," *Journal of Public Economics*, 2005, Volume 89, Issue 8, 1581-1592.

Fund-raising and Organic Mechanisms

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

Lise Vesterlund, Jan Potters and Martin Sefton, "After you--endogenous sequencing in voluntary contribution games," *Journal of Public Economics*, August 2005, 1399-1419.

Field Studies

John A. List & David Lucking-Reiley, 2002. "The Effects of Seed Money and Refunds on Charitable Giving: Experimental Evidence from a University Capital Campaign," *Journal of Political Economy*, University of Chicago Press, vol. 110(1), pages 215-233.

**Craig Landry & Andreas Lange & John A. List & Michael K. Price & Nicholas G. Rupp, 2005. "Toward an Understanding of the Economics of Charity: Evidence from a Field Experiment," *QJE* 2006

Dean Karlan and John List Does Price Matter in Charitable Giving? Evidence from a Large-Scale Natural Field Experiment (March, 2006).

3. Building Cooperation

Reputation building

Selten, R. and R. Stoecker (1986). "End Behavior in Sequences of Finite

Prisoner's

Dilemma Supergames. A Learning Theory Approach." Journal of Economic Behavior and Organization 7, 47-70.

**Andreoni, James and J.H.Miller."Rational Cooperation in the Finitely Repeated Prisoner's Dilemma: Experimental Evidence." Economic Journal, v.103, May 1993, 570-585. pdf

Dal Bó, P. "Cooperation under the Shadow of the Future: Experimental Evidence from Infinitely Repeated Games." American Economics Review, December 2005.

Signalling and Sorting among Cooperators

Andreoni, James and Larry Samuelson."Building Rational Cooperation" Journal of Economic Theory, 127, 2006, p 117-154.

Punishments and rewards

**Andreoni, James, William H. Harbaugh and Lise Vesterlund, "The Carrot or the Stick: Rewards, Punishments and Cooperation." American Economic Review, June 2003, 93(3), 893-902.

Fehr, E. and S. Gächter (2000), "Cooperation and Punishment in Public Goods Experiments," American Economic Review, 90, 980-994.

David Masclet, Charles Noussair, Steven Tucker, and Marie-Claire Villeval "Monetary and Non-Monetary Punishment in the Voluntary Contributions Mechanism," American Economic Review, Vol. 93, No. 1, March 2003, pages 366-380.

Bettina R in Science. 2006

4. Uncertainty and Expected Utility

Uncertainty, gain and loss aversion. An interactive introduction:

<http://hspm.sph.sc.edu/COURSES/ECON/RiskA/RiskA.html>

**Mark J. Machina "Choice Under Uncertainty: Problems Solved and Unsolved" The Journal of Economic Perspectives, Vol. 1, No. 1. (Summer, 1987), pp. 121-154.

(Note: Concentrate on the triangle diagram, why indifference curves should be parallel, and how the Allais result shows they are not.)

**Charles A. Holt; Susan K. Laury "Risk Aversion and Incentive Effects" (in Shorter Papers) The American Economic Review, Vol. 92, No. 5. (Dec., 2002)

John A. List, 2004. "Neoclassical Theory Versus Prospect Theory: Evidence from the Marketplace," Econometrica, vol. 72(2), pages 615-625.

5. Coordination

Van Huyck, AER

****Roberto Weber, “Managing Growth to Achieve Efficient Coordination in Large Groups” AER 96(1) (March 2006). 114-126**

6. Information and Signalling

****Holt, Charlie and Lisa Anderson. “Information Cascades in the Laboratory” American Economic Review, December 1997, 847-862, received a 1999 ANBAR Citation of Excellence.**

7. Time Consistency/Hyperbolic Discounting

The time-additive stationary model: Varian, Microeconomic Analysis, 3rd ed. Pages 358-359.

****Frederick, Shane; George Lowenstein; and Ted O'Donoghue. “Time Discounting and Time Preference: A Critical Review” JEL, 40(2). (June 2002) 351-401.**

Laibson, D. “Golden eggs and hyperbolic discounting”, QJE, v112 n2, May 1997, p.443-77.

Ted O'Donoghue and Matthew Rabin. "Choice and Procrastination," Quarterly Journal of Economics, 2002.

****Ted O'Donoghue and Matthew Rabin (1999), “Doing It Now or Later.” American Economic Review, 89, 103-124**

DellaVigna, Stefano and Malmendier, Ulrike. “Paying Not to Go to the Gym:...”, AER 2005?

8. Endowment Effect

****Kahneman, D., J. Knetsch, and R. Thaler (1991), Anomalies: The Endowment Effect, Loss Aversion, and the Status Quo Bias., Journal of Economic Perspectives, 5, 198-206 [Article]**

****List, J. “Does Market Experience Eliminate Market Anomalies?” Quarterly Journal of Economics. (February 2003) 118(1), 41-71.**
William T. Harbaugh, Kate Krause, Lise Vesterlund, Are adults better behaved than children? Age, experience, and the endowment effect, Economics Letters (70)2 (2001) pp. 175-181. [Article]
Thaler, Richard and Cass Sunstein, “Liberal Paternalism” AER

9. Sex and Beauty

****Andreoni, J., Vesterlund, L., 2001. Which is the fair sex? Gender differences in altruism. Quarterly Journal of Economics, 116 (1), 293–312.**

****Vesterlund, Lise and Muriel Niederle. “Do Women Shy Away from Competition? Do Men Compete Too Much?” Download in PDF**

Andreoni, James and Ragan Petrie."Beauty, Gender and Stereotypes: Evidence From Laboratory Experiments." January 2004.

****Markus Mobious and Tanya Rosenblatt, “Why Beauty Matters in the Labor Market,” AER 2006**

Raymond Fisman, Sheena S. Iyengar, Emir Kamenica, Itamar Simonson “Gender Differences in Mate Selection: Evidence from a Speed Dating Experiment.” Quarterly Journal of Economics May 2006, Vol. 121, No. 2: 673-697.

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