

DEPARTMENT OF ECONOMICS

Econ 143

EXPERIMENTAL ECONOMICS

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215 Economics Building

Office Hours: Fridays 11-12 and by appointment

Class webpage: <http://econ.ucsd.edu/~jandreoni/143w11>

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 These will be drawn from academic journals and recently completed but as yet unpublished research papers. 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) usually very 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.

Format: Despite the large numbers in the class, we will attempt to teach this 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!

Lab Fee: There will be a \$10 lab fee for this course that we will use to add incentives to our classroom experiments. 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. In addition to what we collect from you, Professor Andreoni will also chip in \$200 to the pot. So, in principle, everyone can make money.

Exams and Grades: The course will have two exams, one at midterm and one during finals week. Exams will each be worth 50%.

Econ 143 – Experimental Economics SCHEDULE OF LECTURES

Papers in Black are required, in gray are optional.

Dates	Topic	Reading
Jan 4	Welcome	
Jan 6	Introduction	Class notes only
Part 1: Individual Decisions		
		Daniel Kahneman, Jack L. Knetsch and Richard H. Thaler “Experimental Tests of the Endowment Effect and the Coase Theorem” <i>The Journal of Political Economy</i> Vol. 98, No. 6 (Dec., 1990), pp. 1325-1348. [link]
		John A. List “Does Market Experience Eliminate Market Anomalies?” <i>The Quarterly Journal of Economics</i> Vol. 118, No. 1 (Feb., 2003), pp. 41-71 [link]
Jan 11, 13	The Endowment Effect	William T. Harbaugh, Kate Krause, Lise Vesterlund, Are adults better behaved than children? Age, experience, and the endowment effect, <i>Economics Letters</i> (70)2 (2001) pp. 175-181. [link]
		Charles R. Plott and Kathryn Zeiler ‘The Willingness to Pay-Willingness to Accept Gap, the “Endowment Effect,” Subject Misconceptions, and Experimental Procedures for Eliciting Valuations’, <i>The American Economic Review</i> Vol. 95, No. 3 (Jun., 2005), pp. 530-545 [link]

Risk:
Expected Utility

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

Rabin, Matthew, "Risk aversion and expected utility theory: A calibration theorem," *Econometrica*, 2000a, 68 (5), 1281-1292. [[link](#)]

Jan 18, 20

Risk:
Prospect Theory

Kahneman, Daniel and Amos Tversky, "Prospect Theory: An Analysis of Decision under Risk," *Econometrica*, 1979, 47 (2), 263–291. [[link](#)]

Daniel Kahneman, Jack L. Knetsch and Richard H. Thaler "Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias" *The Journal of Economic Perspectives* Vol. 5, No. 1 (Winter, 1991), pp. 193-206 [[link](#)]

Harbaugh, William T., Kate Krause, and Lise Vesterlund, "The Fourfold Pattern of Risk Attitudes in Choice and Pricing Tasks," *The Economic Journal*, 2010, 120, 595–611 [[link](#)]

James Andreoni and William T. Harbaugh "[Unexpected Utility: Experimental Tests of Five Key Questions about Preferences over Risk.](#)" , December 2009.

Risk:
Certainty Effect

Gneezy, Uri, John A. List, and George Wu, "The Uncertainty Effect: When a Risky Prospect Is Valued Less Than Its Worst Possible Outcome," *The Quarterly Journal of Economics*, 2006, 121 (4), 1283–1309. [[link](#)]

James Andreoni and Charles Sprenger, "Uncertainty Equivalents: Linear Tests of the Independence Axiom." , May 2010 [[link](#)]

Time: Theory

Laibson, David, "Golden Eggs and Hyperbolic Discounting," *Quarterly Journal of Economics*, 1997, 112 (2), 443-477. [[link](#)]

Ted O'Donoghue and Matthew Rabin (1999), "Doing It Now or Later." *American Economic Review*, 89, 103-124 [[link](#)]

Jan 25,
27

Ashraf, Nava, Dean Karlan, and Wesley Yin, "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines," *Quarterly Journal of Economics*, 2006, 121 (1), 635-672

Time: Tests

Andreoni, James and Charles Sprenger, "Estimating Time Preferences with Convex Budgets," Working Paper, 2009. [\[link\]](#)

Matthew Rabin and Joel L. Schrag, "First impressions matter: A model of confirmatory bias," *The Quarterly Journal of Economics* 114 (1999), no. 1, 37-82. [\[link\]](#)

James Andreoni and Tymofiy Mylovanov, "Diverging Opinions." [\[link\]](#)

Updating Beliefs

Gary Charness and Dan Levin, "When Optimal Choices Feel Wrong: A Laboratory Study of Bayesian Updating, Complexity, and Affect" *American Economic Review*, September 2005. [\[link\]](#)

Feb 1, 3

David Eil and Justin Rao, "The Good News-Bad News Effect: Asymmetric Processing of Objective Information about Yourself" *Forthcoming AEJ Micro*. [\[link\]](#)

Holt, Charlie and Lisa Anderson, "Information Cascades in the Laboratory," *American Economic Review*, December 1997, 847-862 [\[link\]](#)

Discrimination

Marianne Bertrand and Sendhil Mullainathan, "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination" *The American Economic Review* Vol. 94, No. 4 (Sep., 2004), pp. 991-1013 [\[link\]](#)

Catherine Eckel and Ragan Petrie "Face Value," *American Economic Review*, forthcoming, 2010. [\[link\]](#)

Feb 8

Exam 1

IN CLASS

Part 2: Strategic Choice

Feb 10	Multiple Equilibria: Coordination	<p>Van Huyck, John B., Raymond C. Battalio, and Richard O. Biel, "Tacit Coordination Games, Strategic Uncertainty, and Coordination Failure." <i>American Economic Review</i>, 1990, 80 (1), pp. 234-48. [link]</p> <p>Roberto Weber, "Managing Growth to Achieve Efficient Coordination in Large Groups" <i>American Economic Review</i> 96 (1) (March 2006). 114-126. [link]</p>
Feb 15	Dominant Strategy Equilibria & Backward Induction: Prisoner's Dilemma and Public Goods	<p>Andreoni, James and J.H.Miller. "Rational Cooperation in the Finitely Repeated Prisoner's Dilemma: Experimental Evidence." <i>Economic Journal</i>, v.103, May 1993, 570-585. [link]</p> <p>Isaac, R. Mark and James Walker, "Group Size Effects in Public Goods Provision: The Voluntary Contributions Mechanism." <i>Quarterly Journal of Economics</i>, 1988, 179-99. [link]</p> <p>Andreoni, James, "Cooperation in Public Goods Experiments: Kindness or Confusion?" <i>American Economic Review</i>, 1995. [link]</p>
Feb 17	Subgame Perfect Equilibria: Ultimatum Bargaining.	<p>Forsythe, Robert, Joel Horowitz, N.S. Savin and Martin Sefton. "Fairness in Simple Bargaining Games." <i>Games and Economic Behavior</i>, May 1994, 6(3), pp. 347—69. [link]</p> <p>Slonim, Robert and Alvin E. Roth, "Learning in High Stakes Ultimatum Games: An Experiment in the Slovak Republic." <i>Econometrica</i>, 66, 3, May 1988, 569-96. [link]</p> <p>Andreoni, James; Marco Castillo; and Ragan Petrie. "What Do Bargainers' Preferences Look Like? Experiments with a Convex Ultimatum Game." <i>The American Economic Review</i>, Vol. 93, No. 3. (Jun., 2003), pp. 672-685. [link]</p>

Berg, Joyce, John Dickhaut, and Kevin McCabe. "Trust, Reciprocity, and Social History," *Games and Economic Behavior*, 1995, 10, 122-142. [[link](#)]

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

Feb 22 Subgame Perfect
Equilibria: Trust

Ferh, Ernst, et al., "Does Fairness Prevent Market Clearing? An Experimental Investigation." *QJE*, May 1993, 437-59. [[link](#)]

Gneezy, Uri and John List, "Putting Behavioral Economics To Work: Testing for Gift Exchange in Labor Markets Using Field Experiments." *Econometrica*, September 2006, V 74, 1365-1384. [[link](#)]

Part 3: Sociality and Economic Decisions

Feb 24 Preferences for 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. [[link](#)]

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

Mar 1 Moral Choices:
Recognition
and Requests

Andreoni, J., and R. Petrie (2004): "Public Goods Experiments Without Confidentiality: A Glimpse Into Fund-Raising," *Journal of Public Economics*, 88, 1605–1623 [[link](#)]

James Andreoni and Justin Rao, "The Power of Asking: How Communication Affects Selfishness, Empathy, and Altruism." April 2010. Forthcoming in *Journal of Public Economics*. [[link](#)]

		DANA, J., D.M. CAIN, AND R.M. DAWES (2006): "What You Don't Know Won't Hurt Me: Costly (But Quiet) Exit in Dictator Games," <i>Organizational Behavior and Human Decision Processes</i> , 100, 193–201. 1608-1619 [link]
Mar 3	Moral Choices: Excuses, Avoidance, and Audience Effects	DANA, J., R. A. WEBER, AND X. KUANG (2007): "Exploiting Moral Wiggle Room: Experiments Demonstrating an Illusory Preference for Fairness," <i>Economic Theory</i> , 33, 67–80. 1608-1621 [link]
		James Andreoni and B. Douglas Bernheim "Social Image and the 50-50 Norm: A Theoretical and Experimental Analysis of Audience Effects." <i>Econometrica</i> , 77, no. 5, September 2009, 1607-1636. [link]
		Muriel Niederle and Lise Vesterlund, "Do Women Shy Away from Competition? Do Men Compete Too Much" . <i>Quarterly Journal of Economics</i> , August 2007, Vol. 122, No. 3: 1067-1101. [link]
Mar 8	Preferences for Competition and the Wage Gap	Muriel Niederle and Lise Vesterlund, "Explaining the Gender Gap in Math Test Scores: The Role of Competition," <i>Forthcoming Journal of Economic Perspectives</i> [link]
		Gneezy, Uri, and Aldo Rustichini, "Gender and Competition at a Young Age," <i>American Economic Review Papers and Proceedings</i> , XCIV (2004), 377–381. [link]
		James Andreoni and Ragan Petrie "Beauty, Gender and Stereotypes: Evidence From Laboratory Experiments." <i>Journal of Economic Psychology</i> , v. 29, 2008, 73-93. [link]
Mar 10	Beauty, Sex, Money, and Dating	Markus Mobius and Tanya Rosenblat, "Why Beauty Matters in the Labor Market," <i>AER</i> , v 96 n. 1, March, 2006, p. 222-235 [link]
		Raymond Fisman, Sheena S. Iyengar, Emir Kamenica, Itamar Simonson "Gender Differences in Mate Selection: Evidence from a Speed Dating Experiment." <i>Quarterly Journal of Economics</i> May 2006, Vol. 121, No. 2: 673-697. [link]

Final Exam

Time, Place TBA
Required Readings for 2nd Exam
