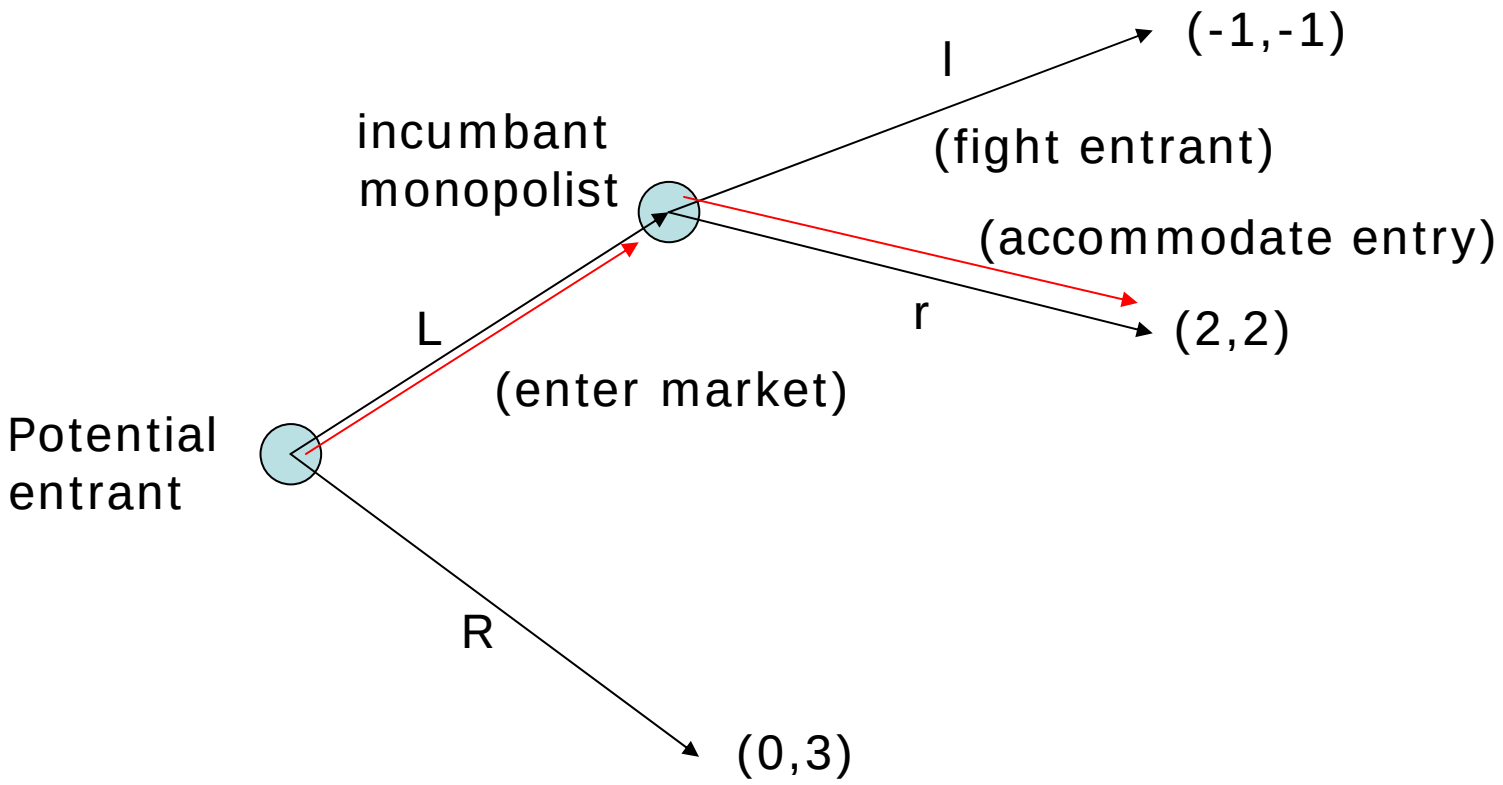
BEEM109 Experimental Economics and Finance

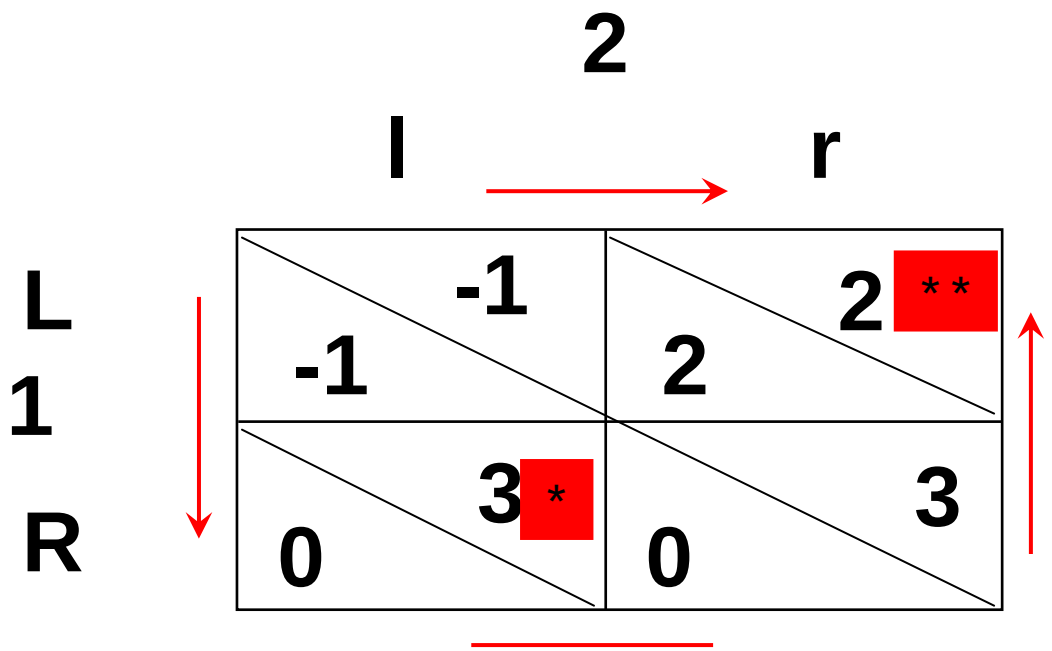
How selfish are people?

Potential entry



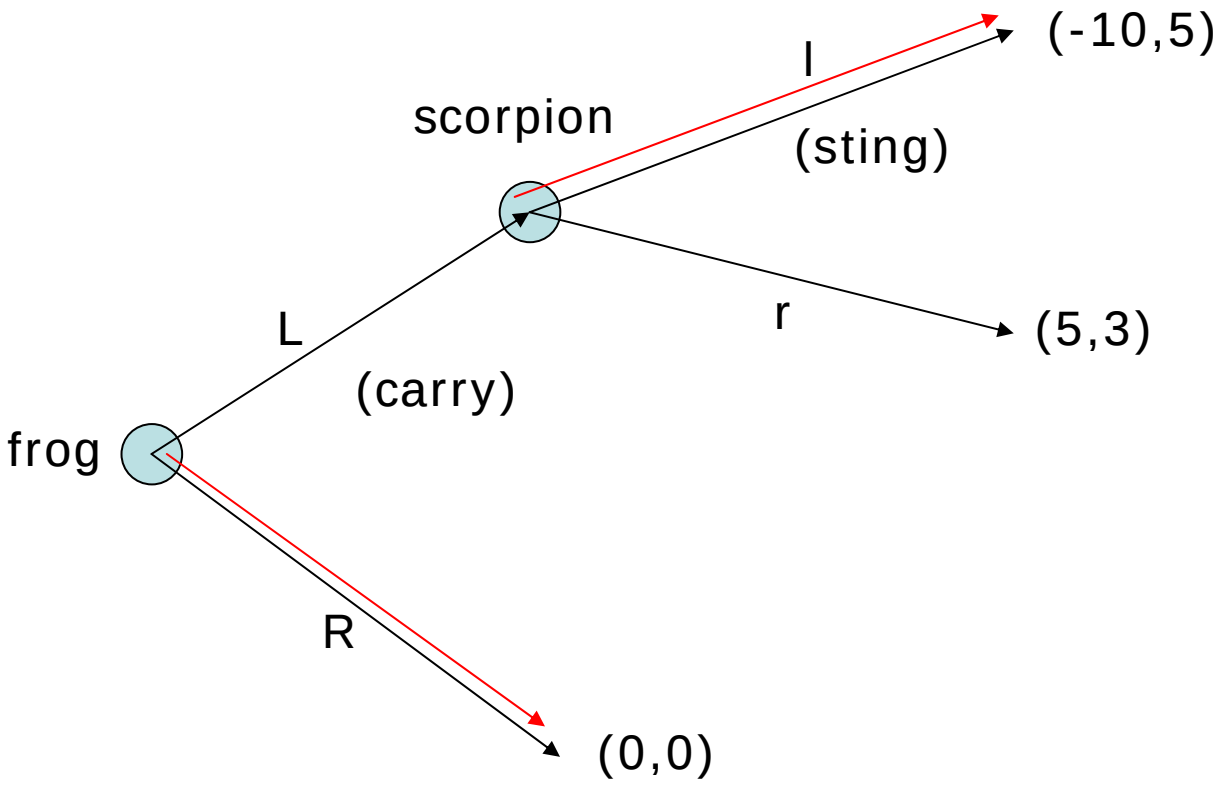
Subgame perfect Nash equilibrium: (L,r)

Other Nash equilibria?



Schelling, Selten: (L,l) is not a credible Nash equilibrium because if 2 would have to move he would play R.

The scorpion and the frog



(do not carry, sting)
Incredible promise?

Ultimatum Bargaining

- Güth, Schmittberger, Schwarz (1982) £10 to divide
- Proposer specifies a division
- Responder has to accept division or reject
- In case of rejection, both get zero
- Version with minimal accepted offer (MAO)

Ultimatum Bargaining

- Subgame perfect Nash-equilibrium: Proposer leaves a penny
- Actual (typical) result:
  - Proposers offer between 50% and 60%
  - Responders reject demands above 70% with probability 40% -66%
  - Proposers too pessimistic

Camerer:

If I had a dollar for every time an economist claimed that raising the stakes would drive ultimatum behavior toward self-interest, I'd have a private jet on standby all day. Many experimental studies *have* raised stakes (see Camerer and Hogarth, 1999).[5] In simple tasks such as ultimatum games, paying extra

Dictator game

- £10 to divide
- Proposer specifies a division
- This is automatically accepted
- Subgame perfect Nash-equilibrium: Proposer leaves zero

Dictator games

- Theory: dictator takes all
- Experiments: this is indeed often the case
- Still, in some experiments around 20% split 50%-50%

Variables

- Methodological variables
  - Repetition: weak effects
  - Stakes: (Cameron) Roth / Aumann, List and Cherry: 25% reject $100 out of $400; Andreoni and Miller: The price of altruism (different value of pie to responder); selfish, Rawlsian, utilitarian
  - Anonymity and Experimenter “Blindness”, weak
- Demographic variables
  - Gender: mild evidence that woman reject less often and offer more to men. Third party punishment: Female punish more and are “better shoppers”, more than 50% Rawlsian
  - Race: Black students offer more an reject more often, white students did not repay trust of Chinese
  - Academic major: Economics vs other subjects (education or self-selection?)
  - Age (before 5, 5- 7, 7+), height!
  - Brains, biology (testerone) and beauty

Variables

- Culture: Roth et al: Israeli and Japanese less than Americans and Slowenians, Buchan et al: Japanese more generous than Americans
  - Henrich, Camerer, Fehr et al:
    - Machiguenga
    - Ache headhunters and Lamerla whalers
- Descriptive variables: weak framing effects

Variables

- Structural Variables: changes in the game
  - Identity: revealing identity of receiver, face to face, general knowledge questions determine proposer
  - Competitive pressure and outside options
    - Raises demands in dictator games
    - Outside options make standard of fairness unclear
    - Multiple reponders
  - Incomplete information on pie size
    - Reduces demand of responder, Abbink et al…
  - Multiperson: Gueth + van Damme
  - Intentions: mini ultimatum game

The trust game

- Example of Tokyo
- Berg, Dickhaut and McCabe
  - Investor invest T and keeps X-T
  - Allocator splits (1+r)T between himself and the investor
  - Subgame perfect equilibrium?
  - Average repayment around 95%, except in Bulgaria (+), and Kenia (-)
  - Crop sharing
  - Video taped experiments
  - Trust and reciprocity
- Fehr, Kirchsteiger, Reidl: gift exchange game, labour markets

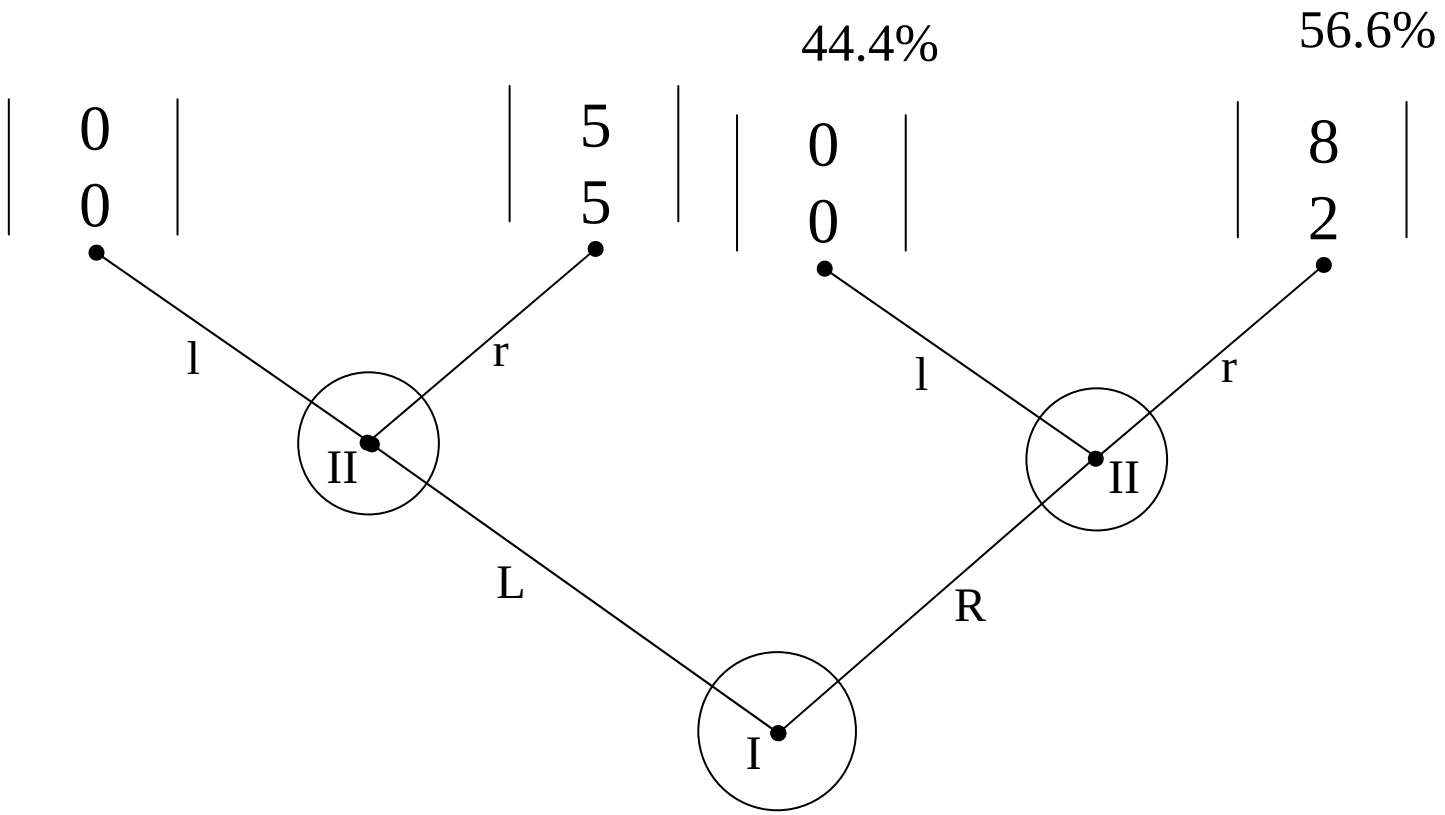
Fairness

- The results contradict selfishness, but not rationality
- Fehr / Schmidt; Bolten / Ockenfels: fairness preferences
- Key: different fairness attitude of players
- Game with “incomplete information”
- Shaked’s critique

Fehr / Schmidt preferences

- x: my monetary payment, y: your monetary payment
- My utility:
  - if $x<y$: $u(x,y)=x-\alpha*(y-x)$ (e.g. envy, spite)
  - if $x>=y$: $u(x,y)=y-\beta(x-y)$ (e.g. guilt)
- “inequity aversion”, not altruism!
- α, β vary among individuals

Falk Fehr Fischbacher I



Falk Fehr Fischbacher II