How selfish are people?
Potential entry

Subgame perfect Nash equilibrium: (L,r)
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

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
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). 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 (testosterone) 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 responders
  – 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 $x \geq y$: $u(x,y) = y - \beta (x-y)$ (e.g. guilt)
• “inequity aversion”, not altruism!
• $\alpha, \beta$ vary among individuals
Falk Fehr Fischbacher I

```
  0  |  5  |  0  |  8  |
  0  |  5  |  0  |  2  |

L  l  r  R
II  I  II

44.4%  56.6%
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Falk Fehr Fischbacher II