

**Universidad de los Andes**  
**Facultad de Economía**  
**Escuela Internacional de Verano 2006**  
**Economía Experimental**

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**Fechas: 4 al 14 de julio**

**Nota: La fecha límite para retirarse del curso será el viernes 14 de julio. Si el examen final se programa para ese día, el retiro deberá hacerse a más tardar el 13 de julio.**

**Pendiente: sistema de evaluación**

Analysis, modeling and data gathered from the field have been the traditional sources of economic knowledge. Experiments were confined to thought, and rarely included action. In the recent decades, economists have utilized laboratory experiments to investigate the economic behavior of individuals, and their interaction in markets and other socio-economic environments. Experiments with human participants can be designed to examine the validity of alternative theories as well as performance and effectiveness of various solutions to economic problems.

This seminar introduces you to experimental methods, enriches your economic intuition through participation in, and design and conduct of experiments.

The introduction part of the course consists of a series of classroom experiments that address some classic questions, such as:

1. Are the prices and allocations of goods that emerge in an unstructured market environment approximated by the competitive, supply and demand model?
2. What are the properties of alternative designs of auctions; specifically, what auctions give rise to the “winner’s curse?”
3. Under what conditions, and to what extent, can stock markets be informationally efficient? When do they become susceptible to formation of price bubbles?
4. How does the problem of free riding arise in provision of public goods, and what, if anything, can one do about it?
5. What are the conditions that lead to information cascades or herding behavior?

Participation in and analysis of the results of these experiments, and the relevant readings, will help you refine your understanding of economic phenomena as well as illustrate how to design and analyze your own experiments.

During the first week of the class, while these demonstration experiments are being conducted by the instructor in the class, the students will meet individually (or in teams of two, depending on the class size) with the instructor to identify an interesting economic question. Most of the reading in the course will be in connection with the experimental topic you choose. You will design, execute, analyze, and present a written report on the results of an in-class experiment to address your chosen question.

Possible topics for the student run experiments include (but are not limited to): competitive markets (incidence of taxes); natural monopoly and regulation; duopoly; entry-exit-predation; auctions (second price, winners curse); choice under uncertainty (risk aversion, “anomalies”); the effect of restrictions on trading on market volatility; cascades and herding; public goods (mechanisms for improving provision); multi-stage bargaining; monetary policy under uncertainty, sequential search (the labor market, the “marriage” problem); information dissemination/aggregation; the efficiency of markets with “Zero-Intelligence” agents; trade and comparative advantage.

Each class, students will typically be assigned a reading, either as background on the question being addressed in the next experiment, or as a summary of others’ results.

In addition to a (team or individual) report on their experiment, a short 10-15 page paper will be required of each individual student on a topic relating to experimental economics. For example, the individual paper could relate your experimental results to some real world economic phenomenon, analyze a field experiment, or critically reviewing an experiment reported on in the literature.

Two out of three courses (Intermediate microeconomics, Intermediate macroeconomics, and Econometrics) are prerequisites for the seminar.

## **References**

Friedman, Daniel & Sunder, Shyam, Experimental Methods: A Primer for Economists Cambridge University Press 1994 (F&S)

Davis, Douglas & Holt, Charles, Experimental Economics, Princeton University Press, 1993 (D&H)

Kagel, John & Roth, Alvin, Handbook of Experimental Economics, 1995 (HEE)