EXPERIMENTS IN ECONOMICS
ECON 4554

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ESCUELA DE VERANO 2018

Salón: PTE
Fechas: 18 de junio al 29 de junio
Horario: 8:00 am a 11:00 am

Programa sujeto a cambios

COURSE DESCRIPTION

This course focuses on experiments in economics, including laboratory and field experiments, as well as key insights from the field of behavioural economics and their application to policy making. Where possible, special emphasis will be placed on issues of inequality and identity, and we will explore what can be learned from the lab in this regard. The course provides an overview of economic experiments, especially those that explore the role of fairness, generosity, trust and reciprocity in economic transactions. Are humans fair? Why do we often willingly trust strangers or cooperate with them even if those actions leave us vulnerable to exploitation? Does this natural inclination towards fairness or trust have implications in the marketplace? Traditional economic theory would perhaps think not, perceiving human interaction as self-interested at heart. There is increasing evidence, however, that social norms and norm-driven behaviour such as a preference for fairness, generosity or trust have serious implications for economics. We will look at how norm-driven behaviour can often lead to significantly different outcomes than those predicted by economic theories. We will also focus on recent insights from the field of behavioural economics more broadly, and how these might be incorporated into policy design and implementation so as to enhance individual and social welfare. As such, this course will be of interest to students interested in behavioural economics, institutions and development.

READINGS

The reading list below is a suggested reading list. It is by no means comprehensive, but is provided as a way for students to gain an introduction to the field. Under each topic, readings marked with ** are highly recommended as they provide a good overview of the key concepts.

Where possible, selected readings will be made available via Dropbox

COURSE GRADE:

Assignment: 70%
Group project: 30%

ASSIGNMENT (INDIVIDUAL)

For the written assignment, you are required to design and motivate an experiment you would like to conduct. You may design a lab experiment or a field experiment and it doesn't have to be on a topic which we cover in this course. You may design an experiment that aims to explore issues that relate to automatic thinking or social thinking. Explain how you will add value to the existing literature. In the design section of your paper, you need to spell out the details of your experimental design, making clear how your design will allow you to answer the questions you're interested in. You should state your hypotheses, and demonstrate how you expect to be able to answer these questions through the collection of data. In sum, your paper will need to cover the following:

• State your research question clearly
• Write a comprehensive literature review that provides the background motivation for your experiment.
• Describe your experiment in detail; specifically, the methodology, the hypotheses you will test, and the statistical tools you will employ.
• Describe your target sample; specifically, who will you recruit for your experiment, and why? Are there any special ethical issues that arise in relation to your work?
• Discuss potential pitfalls with your experiment; specifically, what practical problems might arise that would undermine your project? How will you avoid these? Are there any questions you will not be able to answer with the data you collect which might lead to confounds in the interpretation of your results, and is there anything you can do to minimise this?

GROUP PROJECT

You will be assigned to groups of 3-4 students. Each group is required to design and run a short experiment in-class. Each group must provide a short synopsis of the background literature relevant to their experiment, run the experiment and present the results. You do not need to design a new experiment; you may adapt an existing one. Each group will have a maximum of 25 minutes to complete this exercise. Every group member must participate actively in this exercise.

You may run the experiment by hand (using pen and paper), but for the more adventurous, here are a number of websites that provide pre-programmed lab experiments that you might adapt. These experiments will take place in-class in the second week of the course.

Consider:
https://www.moblab.com/
http://veconlab.econ.virginia.edu/
https://www.otree.org/

PROPOSED SYLLABUS

Topic 1: Why the fuss? What is behavioural and experimental economics all about?

**Dhama, S. (2016) Ch 1, *The Foundations of Behavioural Economic Analysis*, Oxford University Press, Oxford, UK.

**World Bank Group, (2015) Overview, *World Development Report: Mind, Society, and Behaviour*; world Bank, Washington, DC. (2015)

**Thaler, R. and Sunstein, C. (2009) Introduction, Chs 4 and 5, *Nudge: Improving decisions and health, wealth and happiness,* Penguin Books

Mullainathan, S. (2004) "Psychology and Development Economics", *Working Paper*, Massachusetts Institute of Technology.

Gneezy, U., and A. Rustichini "A Fine is a Price," *Journal of Legal Studies*, vol. XXIX, 1, part 1, 2000, 1-18

Topic 2: The experimental method

**Thaler, R. and Sunstein, C. (2009) Introduction, *Nudge: Improving decisions and health, wealth and happiness,* Penguin Books,

**Holt, C (2007) Ch 1, *Markets, Games and Strategic Behaviour*, Boston, MA:Pearson

**Chaudhuri, A. (2009) Ch 1, *Experiments in Economics: Playing fair with money*, New York, NY: Routledge.

**Dhama, S. (2016) Ch 1, *The Foundations of Behavioural Economic Analysis*, Oxford University Press, Oxford, UK.

Thaler, R.H. and Sunstein, C. (2003) "Libertarian Paternalism", *American Economic Review*, 93 no.2, 175-79.

Benz, M. and Meier, S. (2006) "Do people behave in Experiments as in the Field? Evidence from Donations", Institute for Empirical Research in Economics, *Working Paper* 248, February, University of Zurich.

Cleave, B.; Nikiforakis, N. and Slonim, R. (2011) "Is there selection bias in Laboratory Experiments? The Case of Social and Risk Preferences, IZA *Discussion Paper* No. 5488, February.

Duflo, E. and Kremer, M. (2003) "Use of Randomization in the Evaluation of Development Effectiveness", *Paper prepared for the World Bank Operations and Evaluation Department Conference on Evaluation and Development Effectiveness*, Washington DC, Massachusetts Institute of Technology.

Harrison, G. (2011) "Randomisation and Its Discontents", *Journal of African Economies*, Vol. 20, No.4, pp 626-652.

Barrett, C. and Carter, M. (2010) "The Power and Pitfalls of Experiments in Development Economics: Some non-random reflections", *Applied Economic Perspectives and Policy.*

AUTOMATIC THINKING

Topic 3: Why do we make bad decisions?

**World Bank Group, (2015) Ch 1 & 4, *World Development Report: Mind, Society, and Behaviour*; world Bank, Washington, DC. (2015)

**Thaler, R. and Sunstein, C. (2009) Ch 1, *Nudge: Improving decisions and health, wealth and happiness,* Penguin Books,

Tversky, A. and Kahneman, D. (1974) Judgement under Uncertainty: Heuristics and Biases, *Science*, 185, 1124-31.

Tversky, A. and Kahneman, D (1981) The Framing of Decisions and the Psychology of Choice, *Science* 211, 453-88.

Kahneman, D, Knetch, J.L. and Thaler, R. (1991) Anomalies: the Endowment effect, Loss Aversion and Status Quo Bias", *Journal of Economic Perspectives,* 5 no.1, 193-206.

Holt, C (2007) Ch 4 & Ch28, *Markets, Games and Strategic Behaviour*, Boston, MA:Pearson

Topic 4: Resisting temptation

**Thaler, R. and Sunstein, C. (2009) Ch 2, *Nudge: Improving decisions and health, wealth and happiness*, Penguin Books,

**World Bank Group, (2015) Ch 1, *World Development Report: Mind, Society, and Behaviour*; World Bank, Washington, DC. (2015)

**Mullainathan, S and Shafir, E. (2013) *Scarcity: Why having too little means so much*", Times Books, Henry Holt and Company, New York. Introduction, & chs1-2, 7-8. (Note that chs 3-6 are also highly recommended)

Dhama, S. (2016) Ch 1, *The Foundations of Behavioural Economic Analysis,* Oxford University Press, Oxford, UK.

SOCIAL THINKING

Topic 5: Why others matter

**Thaler, R. and Sunstein, C. (2009) Ch 3, *Nudge: Improving decisions and health, wealth and happiness,* Penguin Books,

**World Bank Group, (2015) Ch 2 &3, *World Development Report: Mind, Society, and Behaviour*; World Bank, Washington, DC. (2015)

Topic 6: Reciprocity and altruism

**Chaudhuri, Ch 2

Ashraf, Nava, Colin Camerer, and George Loewenstein. "Adam Smith, Behavioral Economist." *Journal of Economic Perspectives* 19, no. 3 (summer 2005).

**Eckel, C. and Grossman, P. (1996) "Altruism in Anonymous Dictator Games", *Games and Economic Behaviour*, vol 16, pps 181-191.

Forsythe, R., J.L. Horowitz, N.E. Savin, and M. Sefton. 1994. "Fairness in simple bargaining experiments." *Games and Economic Behavior* 39 (1):83-110.

Gale, J., K.G. Binmore, and L. Samuelson. 1995. "Learning to be imperfect: The ultimatum game." *Games and Economic Behavior* 8:56-90.

Güth, W., R. Schmittberger, and B. Schwarze. 1982. "An experimental analysis of ultimatum bargaining." *Journal of Economic Behavior and Organizatio*n 3:367-388.

**Henrich, J., R. Boyd, S. Bowles, C. Camerer, E. Fehr, H. Gintis, R. McElreath, M. Alvard, A. Barr, J. Ensminger, N.S. Henrich, K. Hill, F. Gil-White, M. Gurven, F.W. Marlowe, J.Q. Patton, and D. Tracer. 2005. ""Economic Man" in cross-cultural perspective: Behavioral experiments in 15 small-scale societies." *Behavioral and Brain Sciences* 28:795-855.

Roth, A.E., V. Prasnikar, M. Okuno-Fujiwara, and S. Zamir. 1991. "Bargaining and Market Behavior in Jerusalem, Ljubljana, Pittsburgh, and Tokyo: An Experimental Study." *American Economic Review* 81 (5):1068-1095.

**Cappelen, A.W.; Konow, J., Sørensen, E. and Tungodden, B. (2013) Just Luck: An Experimental Study of Risk Taking and Fairness; *American Economic Review*, 103(4), 1398-1413.

Cappelen, A.W.; Moene, K.; Sørensen, E. and Tungodden, B. (2013) Needs vs entitlements - an international fairness experiment, *Journal of the European Economic Association*, 11(3), 574-598.

**Cappelen, A.W.; Hole, A.D.; Sørensen, E. and Tungodden. B. (2007) The pluralism of fairness ideals: An experimental approach; *American Economic Review*, 97(3), 818-827.

Almas, I.; Cappelen, A. and Tungodden, B. (2016) Cutthroat capitalism versus cuddly socialism: Are Americans more meritocratic and efficiency seeking than Scandinavians?", *Norwegian School of Economics, Discussion Paper*.

**Almas, I.; Cappelen, A., Salvanes, KG, Sorenson, E., Tungodden, B. (2017) Fairness and family background, *Politics, Philosophy and Economics*, Vol 16(2), 117-31.

Cappelen, A.; Fest, S. and Sorenson, E. Choice and personal responsibility: What is a morally relevant choice?" *Norwegian School of Economics Discussion Paper.*

Topic 7: Trust and trustworthiness in everyday life

**Chaudhuri Ch 3 , pps 83-122

**Fershtman, C. and Gneezy, U. (2001) “Discrimination in a Segmented Society: An Experimental Approach”, *The Quarterly Journal of Economics*, February 2001.

**Burns, J. (2011) “Race, Diversity and Pro-social Behaviour in a Segmented Society”, *Journal of Economic Behavior and Organisation*, 81, pp 366-378.

**Bertrand, M. and Mullainathan, S. (2004) “Are Emily and Greg More Employable than Lakisha and Jamal?” A Field Experiment on Labor Market Discrimination”, *American Economic Review*, Vol. 94(4), September

Ashraf, N., I. Bohnet, and N. Piankov. 2006. "Decomposing trust and trustworthiness." *Experimental Economics* 9 (193-208).

Barr, A. 2003. "Trust and expected trustworthiness: Experimental evidence from Zimbabwean villages." *The Economic Journal* 113:614-630.

Berg, J., J. Dickhaut, and K. McCabe. 1995. "Trust, reciprocity, and social history." *Games and Economic Behavior* 10:122-142.

Eckel, C., and R.K. Wilson. 2004. "Is trust a risky decision?" *Journal of Economic Behavior and Organization* 55:447-465.

Houser, D., D. Schunk, and J. Winter. 2010. "Distinguishing trust from risk: An anatomy of the investment game." *Journal of Economic Behavior and Organization* 74:72-81.

Schechter, L. 2007. "Traditional trust measurement and the risk confound: An experiment in rural Paraguay." *Journal of Economic Behavior and Organization* 62:272-292.

Topic 8:. Co-operation in social dilemas

**Chaudhuri Ch 4, pps 123-158

Brown, K.M. and Taylor, L.O. (2000) “Do as you say, say as you do: evidence on gender differences in actual and stated contributions to public goods”, *Journal of Economic Behavior* and

Burns, J. and Keswell, M. (2015) Diversity and the provision of public goods: Experimental evidence from South Africa, *Journal of Economic Behaviour and Organisation*.

Visser, M. and Burns, J. (2015) Inequality, social sanctions and cooperation within South African fishing communities, *Journal of Economic Behaviour and Organisation.*

Holt (2007) Chapter 14,*Markets, Games and Strategic Behaviour*, Boston, MA:Pearson

Balliet, D., L.B. Mulder, and P. Van Lange. 2011. "Reward, punishment, and cooperation: a metaanalysis." *Psychological Bulletin* 137(4).

**Zelmer, J. 2003. "Linear public goods experiments: A meta-analysis." *Experimental Economics* 6(3): 299-310.

**Fehr, E. and Gachter, S. (2000) Cooperation and Punishment in Public Goods Experiments, *American Economic Review*, 90 (4), 980-994.

Topic 9: Discrimination and Gender (Optional topic, if time allows)

Gneezy, Uri, Muriel Niederle, Aldo Rustichini, “Performance in Competitive Environments: Gender Differences”, *Quarterly Journal of Economics*, CXVIII, August 2003, 1049 – 1074.

Muriel Niederle, and Lise Vesterlund, “Do Women Shy away from Competition? Do Men Compete too Much?” *Quarterly Journal of Economics*, 2007, 122(3): 1067-1101.

Niederle, Muriel, Carmit Segal, Lise Vesterlund “How Costly is Diversity? Affirmative Action in Light of Gender Differences in Competitiveness” discussion paper Gneezy, Uri, Kenneth L. Leonard, John A. List, “Gender

Differences in Competition: Evidence from a Matrilineal and a Patriarchal Society,” September 2009, 1637-1664.

Markus M. Mobius and Tanya S. Rosenblat, “Why Beauty Matters,” *American Economic Review*, 2006, 96(1), pp. 222-235.

FECHA DE RETIRO*:*

The student may withdraw the course, without refund, up to one business day before the date of the final test stipulated by the teacher. The University will not return the money for tuition payed for these summer courses.