

ADVANCED EXPERIMENTAL ECONOMICS

Lecturers: Peter Katuščák and Michal Bauer

Location: Lectures – Friday 8:30-12:00 (CERGE-EI), Seminars (laboratory sessions) – Thursday (LEE at the VSE). The seminars will not take place every week. Most of them will be during the first half of the course.

Course description: This is a graduate-level topics course in Experimental Economics. The aim is to expose students to multiple potential research topics and related literature. Hands-on participation in in-class experiments will be an integral part of the course. Basic background in microeconomic theory and game theory is assumed. The first part of the course will be based on lab experiments and the second part will study field experiments.

The course will predominantly be based on book chapters and articles and students are expected to read the assigned articles before each class. Below is an extended reading list, and we will only cover a selected subset of papers from it (denoted by asterisk). The list serves as source for further reading in the respective areas.

Grading: Students will be graded based on individual term papers to be submitted by TBA to Peter.Katuscak@cerge-ei.cz or Michal.Bauer@cerge-ei.cz. In this paper, a student should outline a research question to be addressed by experimental economic methods, review the literature, propose a detailed experimental design, outline hypotheses to be tested and discuss how these hypotheses will be tested.

PART I: LAB EXPERIMENTS (PETER KATUŠČÁK)

Topics list:

1. Introduction and methodology
2. Preference elicitation
 - Willingness-to-pay elicitation
 - Belief elicitation
 - Risk aversion elicitation
3. Altruism, Fairness and Bargaining
 - Dictator game
 - Ultimatum game
 - Two-stage bargaining game
4. Trust, Reciprocity and Principal-Agent Games
 - Trust game

- Reciprocity game
- Principal-agent game
- 5. Cooperation
 - Prisoners' Dilemma
- 6. Coordination
 - Battle of the Sexes
 - Minimum effort game
- 7. Guessing
 - Guessing (beauty contest) game
- 8. Public Goods
 - Voluntary contributions game
 - Voluntary contributions with punishments
 - Provision-point mechanism
- 9. Auctions
 - Overview of auction formats
 - Independent private values: English, Dutch, first-price sealed-bid and second-price sealed-bid auctions
 - Common values: first-price sealed-bid
- 10. Financial Markets
 - Multi-unit double-auction:
 - Stock-market, bubbles
 - Prediction market

Textbook: Class readings will be based on two textbooks and on individual articles. The two textbooks are:

- Holt, Charles A., *Markets, Games, and Strategic Behavior*, Pearson-Adison Wesley, 2007.

Other good reference readings are:

- Camerer, Colin, *Behavioral Game Theory*, New York, Russell Sage & Princeton University Press, 2003.
- Friedman, Daniel and Alessandra Cassar, *Economics Lab: an Intensive Course in Experimental Economics*, Routledge, 2004.
- Kagel, John and Alvin Roth, *Handbook of Experimental Economics*, Princeton, 1995.
- Smith, Vernon L., *Rationality in Economics*, Cambridge University Press, 2008.

Article readings: Articles denoted by asterisk will be discussed in class. Other articles are for student reference. Further articles may be assigned for in-class discussion before or during the course of the semester.

1. Introduction and Methodology

*Holt, chapter 1.

Hertwig, Ralph and Andreas Ortmann. "Experimental Practices in Economics: A Methodological Challenge for Psychologists?" *Behavioral and Brain Sciences*, 2001, 24(3), pp. 383-402.

Kahneman, Daniel. "Maps of Bounded Rationality: Psychology for Behavioral Economics." *American Economic Review*, 2003, 93(5), pp. 1449-1475.

Rabin, Matthew. "Psychology and Economics." *Journal of Economic Literature*, 1998, 36(1), pp. 11-46.

Roth, Alvin E. "The Early History of Experimental Economics." *Journal of the History of Economic Thought*, 1993, 15(2), pp. 184-209.

Roth, Alvin E. "Let's Keep the Con out of Experimental Econ.: A Methodological Note." *Empirical Economics*, 1994, 19(2), pp. 279-289.

Samuelson, Larry. "Economic Theory and Experimental Economics." *Journal of Economic Literature*, 2005, 43(1), pp. 65-107.

2. Preference Elicitation

*Holt, chapters 4 and 30.

*Becker, G.M., Degroot, M.H., Marschak, J. (1964). Measuring Utility by a Single-Response Sequential Method. *Behavioral Science*, 9(2), pp. 226-232.

*Holt, Charles A. and Susan K. Laury, "Risk Aversion and Incentive Effects." *American Economic Review*, Vol. 92, No. 5. (Dec., 2002), pp. 1644-1655.

3. Altruism, Fairness, and Bargaining

a. Dictator, Ultimatum and Bargaining Games

*Holt, chapter 12

Binmore, Ken. "Economic Man or Straw Man? Commentary on Heinrich, et al." *Behavioral and Brain Sciences*, 2005, 28, pp. 815-818.

Bornstein, Gary and I. Yaniv. "Individual and Group Behavior in the Ultimatum Game: Are Groups More "Rational" Players?" *Experimental Economics*, 1998, 1, pp. 101-108.

*Cherry, Todd, Peter Frykblom and Jason Shogren. "Hardnose the Dictator." *American Economic Review*, 2002, 92(4), pp. 1218-1221.

*Forsythe, Robert, Joel Horowitz, N.S. Savin and Martin Sefton. "Fairness in Simple Bargaining Experiments." *Games and Economic Behavior*, 1994, 6(3), pp. 347-369.

Goeree, Jacob and C. Holt. "Asymmetric inequality aversion and noisy behavior in alternating-offer bargaining games." *European Economic Review*, 2000, 44, pp. 1079-1089.

*Guth, Werner, R. Schmittberger and B. Schwartz. An Experimental Analysis of Ultimatum Bargaining. *Journal of Games and Economic Behavior*, 1982, 3(4), pp. 367-388.

*Hoffman, E., K. McCabe., K. Shachat, and V. Smith. "Preferences, Property Rights, and Anonymity in Bargaining Games." *Games and Economic Behavior*, 1994, 7, pp. 346-380.

*List, John. "On the Interpretation of Giving in Dictator Games." *Journal of Political Economy*, 2007, 115(3), pp. 482-493.

*Ochs, Jack and Alvin E. Roth. "An Experimental Study of Sequential Bargaining." *American Economic Review*, 1989, 79(3), pp. 355-384.

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

Rubinstein, Ariel. "Perfect Equilibrium in a Bargaining Model." *Econometrica*, 1982, 50(1), pp. 97-109.

*Slonim, Robert and Alvin E. Roth. "Learning in High Stakes Ultimatum Games: An Experiment in the Slovak Republic." *Econometrica*, 1988, 66(3), pp. 569-596.

b. **Models of Inequality Aversion**

*Bolton, Gary E. and Axel Ockenfels. "ERC: A Theory of Equity, Reciprocity and Competition." *American Economic Review*, 2000, 90(1), pp. 166-193.

Charness, Gary and Matthew Rabin. "Understanding Social Preferences with Simple Tests." *Quarterly Journal of Economics*, 2002, 117(3), pp. 817-869.

Dufwenberg, M. and G. Kirchsteiger. "A Theory of Sequential Reciprocity." *Games and Economic Behavior*, 2004, 47(2), pp. 268-98.

*Fehr, Ernst and Klaus Schmidt. "A Theory of Fairness, Competition, and Cooperation." *Quarterly Journal of Economics*, 1999, 114(3), pp. 817-868.

Levine, D. "Modelling Altruism and Spitefulness in Game Experiments." *Review of Economic Dynamics*, 1998, 1(3), pp. 593-622.

Li, Jing. "The Power of Convention: A Theory of Social Preferences." *Journal of Economic Behavior and Organization*, 2008, 65(3-4), pp. 489-505.

Rabin, Matthew. "Incorporating Fairness into Game Theory and Economics." *American Economic Review*, 1993, 83(5), pp. 1281-1302.

Sobel, Joel. "Putting Altruism in Context," *Brain and Behavioral Science*, 2002, 25(2), pp. 275-276.

Sobel, Joel. "Interdependent Preferences and Reciprocity." *Journal of Economic Literature*, 2005, 43(2), pp. 392-436.

4. Trust, Reciprocity and Principal-Agent Games

*Holt, chapter 13.

Andreoni, James. "Trust, Reciprocity, and Contract Enforcement: Experiments on Satisfaction Guaranteed." 2005, Working Paper.

Andreoni, James, William H. Harbaugh and Lise Vesterlund. "The Carrot or the Stick: Rewards, Punishments and Cooperation." *American Economic Review*, 2003, 93(3), pp. 893-902.

*Berg, Joyce, John Dickhaut and Kevin McCabe. "Trust, Reciprocity, and Social History." *Games and Economic Behavior*, 1995, 10(1), pp. 122-142.

Bohnet, Iris, Bruno S. Frey and Steffen Huck. "More Order with Less Law: On Contract Enforcement, Trust, and Crowding." *American Political Science Review*, 2001, 95(1), pp. 131-144.

Cox, James C. "How to Identify Trust and Reciprocity." *Games and Economic Behavior*, 2004, 46(2), pp. 260-281.

Engelmann, Dirk and Andreas Ortmann. "The Robustness of Laboratory Gift Exchange: A Reconsideration." 2002, Working Paper, CERGE-EI, Prague, Czech Republic.

*Fehr, Ernst, Simon Gächter and Georg Kirchsteiger. "Reciprocity as a Contract Enforcement Device: Experimental Evidence." *Econometrica*, 1997, 65(4), pp. 833-860.

*Fehr, Ernst, Georg Kirchsteiger, and Arno Riedl. "Does Fairness Prevent Market Clearing? An Experimental Investigation." *Quarterly Journal of Economics*, 1993, 108(2), pp. 437-459.

*Fehr, Ernst, Alexander Klein, and Klaus Schmidt. "Fairness and Contract Design." *Econometrica*, 2007, 75(1), pp. 121-154.

Glaeser, Edward L., et al. "Measuring Trust." *Quarterly Journal of Economics*, 2000, 115(3), pp. 811-846.

Van Huyck, John B.; Raymond C. Battalio and Mary F. Walters. "Commitment versus Discretion in the Peasant-Dictator Game." *Games and Economic Behavior*, 1995, 10(1), pp. 143-170.

5. Cooperation

*Holt, chapter 3.1-2.

Andreoni, James. "Warm-Glow Versus Cold-Prickle: The Effects of Positive and Negative Framing on Cooperation in Experiments." *Quarterly Journal of Economics*, 1995b, 110(1), pp. 1-21.

Andreoni, James and Larry Samuelson. "Building Rational Cooperation." *Journal of Economic Theory*, 127, 2006, pp. 117-154.

*Andreoni, James and J.H. Miller. "Rational Cooperation in the Finitely Repeated Prisoner's Dilemma: Experimental Evidence." *Economic Journal*, 1993, 103(418), pp. 570-585.

Camerer, C., and K. Weigelt. "Experimental Tests of a Sequential Equilibrium Reputation Model." *Econometrica*, 1988, 56(1), pp. 1-36.

*Cooper, R., D. DeJong and R. Forsythe "Cooperation Without Reputation: Experimental Evidence from Prisoner's Dilemma Games." *Games and Economic Behavior*, 1996, 12(2), pp. 187-218.

*Dal Bo, P. "Cooperation under the Shadow of the Future: Experimental Evidence from Infinitely Repeated Games." *American Economic Review*, 2005, 95(5), pp. 1591-1604.

*Dawes, Robyn and Richard Thaler. "Anomalies: Cooperation." *Journal of Economic Perspectives*, 1988, 2(3), pp. 187-197.

Duffy, John and Jack Ochs. "Cooperative Behavior and the Frequency of Social Interaction." *Games and Economic Behavior*, 2009, 66, pp. 785-812.

Ellison, G. "Cooperation in the Prisoner's Dilemma with Anonymous Random Matching." *Review of Economic Studies*, 1994, 61(3), pp. 567-588.

Kreps, David, Paul Milgrom, John Roberts, and Robert Wilson. "Rational cooperation in the finitely repeated prisoners' dilemma." *Journal of Economic Theory*, 1982, 27(2), pp. 245-252.

Selten, R. and R. Stoecker. "End Behavior in Sequences of Finite Prisoner's Dilemma Supergames: A Learning Theory Approach." *Journal of Economic Behavior and Organization*, 1986, 7(1), pp. 47-70.

6. Coordination

*Holt, chapters 3.3 and 26.

Ochs, Jack. Coordination. In Kagel and Roth.

Blume, Andreas and Andreas Ortmann. "The effects of costless pre-play communication: Experimental evidence from games with Pareto-ranked equilibria." *Journal of Economic Theory*, 132, 2007, 274- 290.

- *Goeree, Jacob and Charles Holt. "An Experimental Study of Costly Coordination." *Games and Economic Behavior*, 2005, 51(2), pp. 349-364.
- Schotter, Andy and Barry Sopher. "Social Learning and Convention Creation in Inter-Generational Games: An Experimental Study." *Journal of Political Economy*, 2003, 111(3), pp. 498-529.
- *Van Huyck, John B.; Battalio, Raymond C. and Beil, Richard O. "Tacit Coordination Games, Strategic Uncertainty, and Coordination Failure." *American Economic Review*, 1990, 80(1), pp. 234-48.
- Van Huyck, J.B., J.M. Wildenthal and R.C. Battalio. "Tacit Cooperation, Strategic Uncertainty, and Coordination Failure: Evidence From Repeated Dominance Solvable Games." *Games and Economic Behavior*, 2002, 38(1), pp. 156-175.
- Weber, Roberto. "Managing Growth to Achieve Efficient Coordination in Large Groups." *American Economic Review*, 2006, 96 (1), March, 114-126.

7. Guessing

- *Holt, chapter 3.4.
- Moulin, Herve. *Game Theory for Social Sciences*. New York: New York Press, 1986.
- *Nagel, Rosemarie. "Unraveling in Guessing Games: An Experimental Study." *American Economic Review*, 1995, 85(5), pp. 1313-1326.

8. Public Goods

- *Holt, chapters 14 and 15.
- Ledyard, John. "Public Goods: A Survey of Experimental Research." Chapter 2 in Kagel and Roth (1995).

a. Linear Public Goods Games

- Anderson, Simon P., Jacob K. Goeree and Charles A. Holt. "A Theoretical Analysis of Altruism and Decision Error in Public Goods Games." *Journal of Public Economics*, 1998, 70(2), pp. 297-323.
- Andreoni, James. "Why Free Ride?: Strategies and Learning in Public Goods Experiments." *Journal of Public Economics*, 1988, 37(3), pp. 291-304.
- Andreoni, James. "An Experimental Test of the Public Goods Crowding-Out Hypothesis." *American Economic Review*, 1993, 83(5), pp. 1317-1327.

- Andreoni, James. "Cooperation in Public Goods Experiments: Kindness or Confusion?" *American Economic Review*, 1995a, 85(4), pp. 891-904.
- *Fehr, Ernst and Simon Gächter. "Cooperation and Punishment in Public Goods Experiments." *American Economic Review*, 2000, 90(4), pp. 980-994.
- *Goeree, Jacob K., Charles A. Holt and S. Laury. "Private Costs and Public Benefits: Unraveling the Effects of Altruism and Noisy Behavior." *Journal of Public Economics*, 2002, 83(2), pp. 257-278.
- *Isaac, R. Mark and James Walker. "Group Size Effects in Public Goods Provision: The Voluntary Contributions Mechanism." *Quarterly Journal of Economics*, 1988a, 103(1), pp. 179-199.
- Isaac, R. Mark and James Walker. "Communication and Free-Riding Behavior: The Voluntary Contribution Mechanism." *Economic Inquiry*, 1988b, 26, pp. 585-608.
- *Isaac, R. Mark, James Walker and Arlington Williams. "Group Size and the Voluntary Provision of Public Goods: Experimental Evidence Utilizing Large Groups." *Journal of Public Economics*, 1994, 54(1), pp. 1-36.
- *Marwell, Gerald and Ruth Ames. "Economists Free Ride, Does Anyone Else? Experiments on the Provision of Public Goods, IV." *Journal of Public Economics*, 1981, 15(3), pp. 295-310.
- Masclot, David, Charles Noussair, Steven Tucker, and Marie-Claire Villeval. "Monetary and Non-Monetary Punishment in the Voluntary Contributions Mechanism." *American Economic Review*, 2003, 93(1), pp. 366-380.
- Palfrey, Thomas and Howard Rosenthal. "Testing for Effects of Cheap Talk in a Public Goods Game with Private Information." *Games and Economic Behavior*, 1991, 3(2), pp. 183-220.
- Palfrey, Thomas and Jeffrey Prisbrey. "Altruism, Reputation, and Noise in Linear Public Goods Experiments." *Journal of Public Economics*, 1996, 61(3), pp. 409-427.
- Palfrey, Thomas and Jeffrey Prisbrey. "Anomalous Behavior in Public Goods Experiments: How Much and Why?" *American Economic Review*, 1997, 87(5), pp. 829-846.

b. Provision Point

- *Bagnoli, Mark and Michael McKee. "Voluntary Contributions Games: Efficient Private Provision of Public Goods." *Economic Inquiry*, 1991, 29(2), pp. 351-366.

Bagnoli, Mark, Shaul Ben-David and Michael McKee. "Voluntary Provision of Public Goods: The Multiple Unit Case." *Journal of Public Economics*, 1992, 47(1), pp. 85-106.

Davis, Douglas and Charles Holt. *Experimental Economics*. Princeton: Princeton University Press, pp. 338-343.

*Dawes, Robin, John Orbell, R.T. Simmons and A.J.C. van de Kragt. "Organizing Groups for Collective Action." *American Political Science Review*, 1986, 80(4), pp.1171-85.

Rondeau, Daniel, William D. Schulze and Gregory L. Poe. "Voluntary Revelation of the Demand for Public Goods Using a Provision Point Mechanism." *Journal of Public Economics*, 1999, 72(3), pp. 455-470.

Rondeau, Daniel, Gregory L. Poe and William D. Schulze. "VCM or PPM? A comparison of the performance of two voluntary public goods mechanisms." *Journal of Public Economics*, 2005, 89(8), pp. 1581-1592.

9. Auctions

*Holt, chapters 19 and 21.

*Kagel, John. "Auctions." Chapter 7 in Kagel and Roth.

a. Private-Value Auctions

Anderson, Simon P., Jacob K. Goeree and Charles A. Holt. "Rent Seeking with Bounded Rationality: An Analysis of the All-Pay Auction." *Journal of Political Economy*, 1998, 106(4), pp. 828-853.

Andreoni, James and John H. Miller. "Auctions with Artificial Adaptive Agents." *Games and Economic Behavior*, 1995, 10(1), pp. 39-64.

Andreoni, James, Yeon-Koo Che and Jinwoo Kim. "Asymmetric Information about Rivals Types in Standard Auctions: An Experiment." *Games and Economic Behavior*, 2007, 59, pp. 240-259.

*Chen, Yan, Peter Katuscak and Emre Ozdenoren. "Why Can't a Woman Bid More Like a Man?", 2009, working paper.

*Filiz-Ozbay, Emel and Erkut Ozbay. "Auctions with Anticipated Regret: Theory and Experiment." *American Economic Review*, 2007, 97(4), pp. 1407-1418.

List, John A. and David Lucking-Reiley. "Demand Reduction in Multiunit Auctions: Evidence from a Sportscard Field Experiment." *American Economic Review*, 90(4), 2000, pp. 961-972.

*Lucking-Reiley, David. "Using Field Experiments to Test Equivalence Between Auction Formats: Magic on the Internet." *American Economic Review*, 1999, 89(5), pp. 1063-1080.

Milgrom, Paul. "Auctions and Bidding: A Primer (in Symposia: Auctions)." *Journal of Economic Perspectives*, 1989, 3(3), pp. 3-22.

Riley, John G. "Expected Revenue from Open and Sealed Bid Auctions (in Symposia: Auctions)." *Journal of Economic Perspectives*, 1989, 3(3), pp. 41-50.

b. Common-Value Auctions

Kagel, J., R. Harstad and D. Levin. "Information Impact and Allocation Rules in Auctions with Affiliated Private Values: A Laboratory Study." *Econometrica*, 1987, 55(6), pp. 1275-1304.

Kagel, John H. and Dan Levin. "Common Value Auctions with Insider Information." *Econometrica*, 1999, 67(5), pp. 1219-1238.

Levin, Dan, John Kagel and Jean-Francois Richard. "Revenue Effects and Information Processing in English Common Value Auctions." *American Economic Review*, 1996, 86(3), pp. 442-460.

*Thaler, Richard H. "Anomalies: The Winner's Curse." *Journal of Economic Perspectives*, 1988, 2(1), pp. 191-202.

10. Financial Markets

a. Double Auction and Call Market

Chamberlin, E. H. "An Experimental Imperfect Market." *Journal of Political Economy*, 1948, 56, pp. 95-108.

Friedman, Dan. "How Trading Institutions Affect Financial Market Performance: Some Laboratory Evidence." *Economic Inquiry*, 1993, 31, pp. 410-435.

McCabe, Kevin, S.J. Rassenti and Vernon Smith. "Designing a Uniform-Price Double Auction: An Experimental Evaluation." 1993. In D. Friedman and J. Rust, eds., *The Double Auction Market: Institutions, Theory and Evidence*, SFI Studies in the Sciences of Complexity, Proceedings, 15, Reading, MA: Addison-Wesley.

Smith, Vernon. "An Experimental Study of Competitive Market Behavior." *Journal of Political Economy*, 1962, 70, pp. 111-137.

Smith, Vernon. "The Effect of Market Organization on Competitive Equilibrium." *Quarterly Journal of Economics*, 1964, 78, pp. 181-201.

Smith, Vernon. "Markets as Economizers of Information: Experimental Investigation of the Hayek Hypothesis." *Economic Inquiry*, 1982, 20, pp. 165-179.

b. Bubbles in Financial Markets

*Holt, chapter 11.

*Bostian, A. J., Jacob Goeree and Charles Holt. "Price Bubbles in Asset Market Experiments with a Flat Fundamental Value." 2005, working paper.

Caginalp, G., David Porter and Vernon Smith. "Financial Bubbles: Excess Cash, Momentum and Incomplete Information." *Journal of Psychology and Financial Markets*, 2001, 2, pp. 80-89.

Dufwenberg, Martin, Tobias Lindqvist and Evan Moore. "Bubbles and Experience: An Experiment." *American Economic Review*, 2005, 95(5), pp. 1731-1737.

Haruvy, Ernan and Charles Noussair. "The Effect of Short Selling on Bubbles and Crashes in Experimental Spot Asset Markets." *Journal of Finance*, 2006, 61(3), pp. 1119-1157.

King, Ronald, Vernon Smith, Arlington Williams and Mark Van Boening. "The Robustness of Bubbles and Crashes in Experimental Stock Markets." In Richard H. Day and Ping Chen, eds., *Nonlinear Dynamics and Evolutionary Economics*. Oxford: Oxford University Press, 1993, pp. 183-200.

Noussair, Charles and Steven Tucker. "Futures Markets and Bubble Formation in Experimental Asset Markets." *Pacific Economic Review*, 2006, 11(2), pp. 167-184.

Peterson, Steven. "Forecasting Dynamics and Convergence to Market Fundamentals: Evidence from Experimental Asset Markets." *Journal of Economic Behavior and Organization*, 1993, 22(3), pp. 269-84.

Porter, David and Vernon Smith. "Futures Contracting and Dividend Uncertainty in Experimental Asset Markets." *Journal of Business*, 1995, 68(4), pp. 509-541.

Shleifer, Andrei and Robert Vishny. "The Limits of Arbitrage." *Journal of Finance*, 1997, 52(1), pp. 35-55.

*Smith, Vernon, G. Suchanek, & Arlington Williams, "Bubbles, Crashes and Endogenous Expectations in Experimental Spot Asset Markets." *Econometrica* 1988, 56, pp. 1119-51.

Van Boening, Mark, Arlington Williams and Shawn La Master. "Price Bubbles and Crashes in Experimental Call Markets." *Economic Letters*, 1993, 41(2), pp. 179-185.

c. Prediction Markets

*Holt, chapter 34.

Berg, Joyce, Robert Forsythe, Forest Nelson and Thomas Rietz. "Results from a Dozen Years of Election Futures Markets Research." *Handbook of Experimental Economics Results*, 2008, 1, pp. 742-751.

Manski, Charles. "Interpreting the Predictions of Prediction Markets." *Economic Letters*, 2006, 91, pp. 425-429.

*Wolfers, Justin. "Prediction Markets." *Journal of Economic Perspectives*, 2004, 18(2), pp. 107-126.

Wolfers, Justin and Eric Zitzewitz. "Interpreting Prediction Market Prices as Probabilities." 2006, NBER Working Paper No. 12200.

PART II: FIELD EXPERIMENTS (MICHAL BAUER)

Outline of the "field" part of the course.

- Self-control, status quo bias and deadlines
- Commitment devices
- Determinants of time discounting
- Reciprocity (gift-exchange)
- Incentives and economic behavior
- Social preferences: universal or responding to circumstances?
- Roots of social preferences: developmental psychology
- Discrimination: preference-based or statistical?
- Alternative approaches to discrimination
- Adverse selection and moral hazard
- Sunk costs fallacy and the role of prices in social programs

Class readings for this part will be based almost entirely on individual articles. A useful overview of some of the topics is:

DellaVigna, S. 2009. "Psychology and economics: Evidence from the field." *Journal of Economic Literature* 47:315–372.

1. Self-control, status quo bias and deadlines

*Ariely, D., and K. Wertenbroch. 2002. "Procrastination, deadlines, and performance: Self-control by precommitment." *Psychological Science* 219–224.

*Della Vigna, S., and U. Malmendier. 2006. "Paying not to go to the gym." *American Economic Review* 96:694–719.

*Thaler, R. H, and S. Benartzi. 2004. "Save More Tomorrow™: using behavioral economics to increase employee saving." *Journal of Political Economy* 112:164–187.

Madrian, B. C, and D. F Shea. 2001. "The Power of Suggestion: Inertia in 401 (k) Participation and Savings Behavior*." *Quarterly Journal of Economics* 116:1149–1187.

2. Commitment devices

Bryan, Gharad, Dean Karlan, and Scott Nelson. n.d. "Commitment Devices." <http://karlan.yale.edu/p/CommitmentDevices-AnnualReview-v32.pdf> (Accessed November 14, 2009).

*Ashraf, N., D. Karlan, and W. Yin. 2006. "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines." *Quarterly Journal of Economics* 121:635–672.

*Duflo, E., M. Kremer, and J. Robinson. 2009. "Nudging Farmers to Utilize Fertilizer: Theory and Experimental Evidence from Kenya." *CEPR Discussion Papers*.

Gine, X., D. Karlan, and J. Zinman. 2009. "Put your Money where your butt is." *Research Working papers* 1:1–34.

*Bauer, M., J. Chytilová, and J. Morduch. 2010. "Behavioral foundations of microcredit: Experimental and survey evidence from rural India." *Financial Access Initiative Research Paper*.

3. Determinants of time discounting

*Harrison, G. W, M. I Lau, and M. B Williams. 2002. "Estimating individual discount rates in Denmark: A field experiment." *American Economic Review* 1606–1617.

- *Sunde, U., T. Dohmen, A. Falk, and D. Huffman. 2010. "Are Risk Aversion and Impatience Related to Cognitive Ability?." *American Economic Review* 100:1238–1260.
- *Bauer, M., and J. Chytilová. 2010. "The impact of education on subjective discount rate in ugandan villages." *Economic Development and Cultural Change* 58:643–669.
- Bauer, M., and J. Chytilová. 2009. "Women, children and patience: experimental evidence from Indian villages." *IZA Discussion paper n. 4241*.
- Mischel, W., Y. Shoda, and M. L Rodriguez. 1989. "Delay of gratification in children.." *Science* 244:933–938.

4. Reciprocity (gift-exchange)

- Fehr, Ernst, Georg Kirchsteiger, and Arno Riedl. 1993. "Does Fairness Prevent Market Clearing? An Experimental Investigation." *The Quarterly Journal of Economics* 108:437-459.
- *Fehr, E., U. Fischbacher, and E. Tougareva. n.d. "Do high stakes and competition undermine fairness? Evidence from Russia." Unpublished paper.
- Gneezy, U., and J. A List. 2006. "Putting behavioral economics to work: Testing for gift exchange in labor markets using field experiments." *Econometrica* 1365–1384.
- *Falk, A. 2007. "Gift exchange in the field." *Econometrica* 75:1501–1511.
- *Kube, S., M. A Maréchal, and C. Puppe. 2006. "Putting Reciprocity to Work—Positive versus Negative Responses in the Field." *University of St. Gallen Department of Economics working paper series*.
- *Karlán, D., and J. A List. 2007. "Does price matter in charitable giving? Evidence from a large-scale natural field experiment." *The American Economic Review* 97:1774–1793.
- Gneezy, A., U. Gneezy, L. D Nelson, and A. Brown. 2010. "Shared Social Responsibility: A Field Experiment in Pay-What-You-Want Pricing and Charitable Giving." *Science* 329:325.

5. Incentives and economic behavior

- *Gneezy, U., and A. Rustichini. 2000. "A Fine is a Price." *The Journal of Legal Studies* 29:1–17.
- *Bandiera, O., I. Barankay, and I. Rasul. 2005. "Social Preferences and the Response to Incentives: Evidence from Personnel Data*." *The Quarterly Journal of Economics* 120:917–962.

*Glewwe, P., N. Ilias, and M. Kremer. 2010. "Teacher incentives." *American Economic Journal: Applied Economics* 2:205–227.

Duflo, E., and R. Hanna. 2005. "Monitoring works: getting teachers to come to school." *NBER Working Paper*.

6. Social preferences: universal or responding to circumstances?

*Fehr, Ernst, and Simon Gächter. 2002. "Altruistic punishment in humans." *Nature* 415:137-140.

*Herrmann, B., C. Thoni, and S. Gächter. 2008. "Antisocial punishment across societies." *Science* 319:1362.

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