

## Topics Course: Experimental Economics

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In this course I will discuss techniques of experimental economics and illustrate design and methodological issues in discussing recent topics in behavioral economics. The suggested topics are listed below and include (1) an introduction to lab experiments, potential objections against lab evidence, generalizability and experimental methods, (2) morality, (3) formation of preferences and personality, (4) measuring preferences on a global scale; cultural economics and long-term development.

Additional possible topics include psychology of incentives, reference dependent preferences and liberal paternalism. Participants are also invited to suggest topics. In addition to discussing design choices I will highlight the benefits of combining different data sets (survey and experiments), how to run experiments with children and in representative samples, and how to validate survey measures with experiments. Conditional on interest, I will comment on publication strategies and on how to respond to referee comments using examples. In terms of procedures, the course will be a mixture of presentation and discussion.

Below you find a list of papers (suggested reading). Please note: the reading list will possibly be updated.

Your task for the course is to prepare a proposal for an experiment. The proposal should specify the research question, hypotheses to be tested and a detailed description of the design of the experiment (maximum three pages). It is due three weeks before the end of the semester. You may also be required to present your proposal in one of the last sessions of the course (details will depend on the number of course participants and will be announced in due time).

Logistics: The course will take place on four full days at the Center of Economics of Neuroscience on Venusberg (2.12.2015, 16.12.2015, 13.1.2016, 20.1.2016, 9am-4pm). To register, please send an email to [benjamin.enke@uni-bonn.de](mailto:benjamin.enke@uni-bonn.de). Deadline for registration is October 31, 2015. To facilitate planning, nobody will be admitted to the course after the deadline.

To keep up to date on the course material, please also refer to our institute's website <http://www.iame.uni-bonn.de/teaching>.

## Suggested topics

### 1 Lab experiments

I will briefly discuss the idea of lab experiments; why the discussion about field vs. lab evidence is misguided; what generalizability implies (and what not); and discuss frequently made objections against lab experiments, illustrated with recent evidence on subject pool effects, stake size and scrutiny in the domain of social preferences. The introduction will also provide an overview with regard to general design issues and a very subjective assessment of what constitutes a “good” experiment.

Suggested reading:

- Davis, D.D., Holt, C.A. (1993), *Experimental Economics*, Princeton University Press, Princeton, New Jersey.
- Falk, A., Heckman, J. (2009), Lab Experiments Are a Major Source of Knowledge in the Social Sciences, *Science*, 326(5952), 535–538.
- Falk, A., Meier, S., Zehnder, C. (2013), Do Lab Experiments Misrepresent Social Preferences? The case of self-selected student samples, *Journal of the European Economic Association*, 11(4), 839–852.
- Camerer, C. (2011), The promise and success of lab-field generalizability in experimental economics: A critical reply to Levitt and List.
- Abeler, J., Nosenzo, D. (2013), Self-selection into Economics Experiments is Driven by Monetary Rewards, *IZA DP*, 7374.
- Barmettler, F., Fehr, E., Zehnder, C. (2012), Big Experimenter Is Watching You! Anonymity and Prosocial Behavior in the Laboratory, *Games and Economic Behavior*, 75(1), 17–34.
- Coppock, A., Green, D.P. (2013), *Assessing the Correspondence between Experimental Results Obtained in the Lab and Field: A Review of Recent Social Science Research*, Columbia University.

### 2 Morality

Despite the fact that the public is very concerned with moral issues, and despite the fact that economics could contribute much to that debate, economists have been quite reluctant to address the issue. Morality is the outcome of the interaction of individual conscience together with physical, psychological, cultural, and institutional determinants. In other words, moral behaviour is malleable and not determined solely by conscious reasoning guided by moral principles. I will talk about the effects of institutions (markets and groups) and individual determinants of immoral behavior. Closely related is a series of papers providing evidence on how circumstances lower people’s willingness to act prosocially (“wriggle rooms”). In fact, thinking about reasons for moral transgression is, to a large extent, thinking about how people search for excuses. Perhaps I will also include a review on the related, nascent and rapidly growing literature on lying, and certainly some new stuff.

Suggested reading:

- Bartling, B., Fischbacher, U. (2012), Shifting the Blame: On Delegation and Responsibility, *Review of Economic Studies* 79(1), 67-87.

- Dana, J., Weber, R. and Kuang, X. (2007), Exploiting ‘moral wriggle room’: Experiments demonstrating an illusory preference for fairness. *Economic Theory*, 33(1): 67-80.
- Falk, A., Szech, N. (2013), Morals and Markets, *Science*, 340(6133), 707–711.
- Falk, A., Szech, N. (2013), Organizations, Diffused Pivotality and Immoral Outcomes, Discussion Paper, University of Bonn.
- Haidt, J., Kesebir, S. (2010), Morality, *Handbook of Social Psychology*, 5th Edition. Chap. 22. Fiske, S., Gilbert, D., Lindzey, G. (Eds.). Wiley.
- Foot, P. (1967), The Problem of Abortion and the Doctrine of Double Effect, *Oxford Review*, 5, 5–15.
- Hamman, J., Loewenstein, G., and Weber, R. (2010), Self-interest through delegation: An additional rationale for the principal-agent relationship. *The American Economic Review*, 100(4): 1826-1846.
- Haisley, E., Weber, R. (2010), Self-serving interpretations of ambiguity in other-regarding behavior, *Games and Economic Behavior*, 68(2): 634-645.
- Sobel, J. (2010), Do markets make people selfish? Discussion Paper, Economics Department, University of California.

### **3 Personality and Preferences: Measurement, Formation and Relevance, and Experiments with Children and Representative Samples**

Traditionally, economics has explained difference in behavior as a consequence of changes in incentives, such as prices, for given preferences. In fact, using differences in preferences or personality were largely discarded as non-explanations (see the famous dictum “de gustibus non est disputandum”, applied to economics by Stigler and Becker, 1977). In light of the pronounced heterogeneity in preferences and their obvious importance, this self-imposed restriction seems at least disputable. In recent years, and partly as a consequence of the progress in measuring preferences, economists have therefore started to use heterogeneity in personality and preferences to explain important economic outcomes. This raises important questions about (1) how to measure preferences and personality, (2) how economic and psychological measures of traits are related, and (3) how preferences are formed. I will talk about these issues, e.g., about distribution and consequences of risk preferences and psychological measures such as the Big-5 or Locus of Control. I will also report new evidence on the relation between economic and psychological measures. A particularly important question concerns the formation of preferences (not least for understanding inequality). Early life-circumstances seem to play a particular important role, such as socio-economic status and parenting style (proxied, e.g., with breastfeeding duration). Ultimately, we need to run intervention studies to provide causal evidence on the effects of (early) life circumstances on preferences. In this domain I will discuss recent work on children. Running experiments with children poses important challenges.

Suggested reading:

- Alan, S. and Ertac, S. (2014), Good Things Come to Those Who (Are Taught How to) Wait: Results from a Randomized Educational Intervention on Time Preference
- Alan, S., Boneva, T. and Ertac, S. (2015), Ever Failed, Try Again, Succeed Better: Results from a Randomized Educational Intervention on Grit.

- Almlund, M., Duckworth, A.L., Heckman, J.J., Kautz, T. (2011), *Personality Psychology and Economics*, IZA DP, 5500.
- Becker, A., Deckers, T., Dohmen, T., Falk, A., Kosse, F. (2012), *The Relationship Between Economic Preferences and Psychological Personality Measures*, *Annual Review of Economics*, 4, 453–478.
- Borghans, L., Duckworth, A.L., Heckman, J.J., ter Weel, B. (2008), *The Economics and Psychology of Personality Traits*, *Journal of Human Resources*, 43(4), 972–1059.
- Deckers, T., Falk, A., Kosse, F., Schildberg-Hoerisch, H., *How Does Parental Socio-Economic Status Shape a Child's Personality?* IZA Discussion Paper No. 8977 .
- Dohmen, T., Falk, A., Huffman, D., Sunde, U. (2010), *Are Risk Aversion and Impatience Related to Cognitive Ability?* *American Economic Review*, 100(3), 1238–1260.
- Dohmen, T., Falk, A., Huffman, D., Sunde, U. (2011), *Individual Risk Attitudes: Measurement, Determinants, and Behavioral Consequences*, *Journal of the European Economic Association*, 9(3), 522–550.
- Dohmen, T., Falk, A., Huffman, D., Sunde, U. (2012), *Interpreting Time Horizon Effects in Inter-Temporal Choice*, Discussion Paper, University of Bonn.
- Dohmen, T., Falk, A., Huffman, D., Sunde, U. (2012), *The Intergenerational Transmission of Risk and Trust Attitudes*, *Review of Economic Studies*, 79(2), 645–677.
- Falk, A., Kosse, F. (2015), *Breastfeeding duration, early life circumstances and the formation of preferences*, Discussion Paper, University of Bonn.
- Fehr, E., Bernhard, H., Rockenbach, B. (2008), *Egalitarianism in Young Children*, *Nature*, 454, 1079–1083.
- Heckman, J., Moon, S. M., Pinto, R., Savelyev, P., Yavitz, A. (2009), *The Rate of Return to the High/Scope Perry Preschool Program*, NBER Working Paper No. 15471.
- Kosse, F., Deckers, T., Schildberg-Hoerisch, H., Falk, A. (2015), *Formation of Prosociality: The Causal Effect of Sociocultural Environment*, mimeo.
- Sutter, M., Kocher, M., Rützler, D., Trautman, S. (2013), *Impatience and uncertainty: Experimental decisions predict adolescents' field behavior*. *American Economic Review* 103, 510-531.

#### **4 Preferences on a Global Scale**

Risk, time, and social preferences have been identified as predictors of field behavior such as savings, self-employment, and donations. At the same time, little is known about the global distribution of these traits, whether they predict behaviors across cultural contexts, and what the ultimate roots of (cultural) heterogeneity in preferences in beliefs are. To shed light on these questions, we will discuss the Global Preference Survey as well as additional studies. Particular focus will be on how to design and implement a large-scale survey across cultural contexts, and on how to proceed in making productive use of the resulting novel dataset.

Suggested reading:

- Falk, A., Becker, A., Dohmen, T., Enke, B., Huffman, D., Sunde, U. (2015), The Nature and Predictive Power of Preferences: Global Evidence, mimeo.
- Dohmen, T., Enke, B., Falk, A., Huffman, D., Sunde, U. (2015), Patience and the Wealth of Nations, mimeo.
- Becker, A., Enke, B., Falk, A. (2015), The Ancient Origins of Cross-Country Heterogeneity in Risk Preferences, mimeo.
- Guiso, L., Sapienza, and Zingales, L. (2006). Does Culture Affect Economic Outcomes? *Journal of Economic Perspectives*.
- Galor, O., Özak, O (2014). The Agricultural Origins of Time Preference, mimeo.
- Chen, M.K. (2013), The Effect of Language on Economic Behavior: Evidence from Savings Rates, Health Behaviors, and Retirement Assets. *American Economic Review*.
- Alesina, A., Giuliano, P., Nunn, N. (2013), On the Origin of Gender Roles: Women and the Plough. *Quarterly Journal of Economics*
- Cantoni, D., Chen, Y., Yang, D., Yuchtman, N., and Zhang, J. (2014), Curriculum and Ideology, mimeo.