



Department of Economics and Finance

ECON*6100
Experimental Economics
Winter 2014



Instructor: Prof. Bram Cadsby, MacK 735, Ext. 53320
Office Hours: Tuesdays 2:30-3:50 and Fridays 1:30-3:00

It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of class assignments, what to do when you cannot meet a course requirement, and the drop date for the semester. To better understand these policies, visit:

https://dev.web.uoguelph.ca/economics_d7/important-notice-about-students-responsibilities-and-university-policies

Course Outline

This course provides an introduction to the growing field of Experimental Economics. I will make no attempt to cover the entire field of experimental economics in this short twelve-week course. Rather, I will concentrate on a small number of topics that I find especially interesting. The primary goal is to promote awareness of the experimental approach to testing economic theories and to encourage some of you to do further research in your area of interest using experimental methods. An additional goal is to acquaint you with different approaches to experimental design and the advantages and disadvantages of these different approaches in a variety of economic contexts. Finally, this course aims to help you develop your skills at speaking and writing about economic research in a clear, coherent, and precise manner that engages the interest of the listener or reader.

Each of you will lead a number (two to three) of discussions based on course readings. These will be worth 40% of your grade. Participation in the discussions led by others will be worth 20% of your grade. In addition, you will write a paper for the course. The paper may be a critical survey of a set of experimental papers, an experimental design, or a combination of the two. The paper will be worth 40% of your grade.

Below is a list of the topics and readings we may discuss this semester. We will not be able to study all of these papers. I will choose papers from this list based on your expressions of interest, and announce the papers that we will study in advance. Some of the readings will come from a textbook by Charles Holt called *Markets, Games, and Strategic Behavior*. I will make the readings from that book as well as any unpublished papers that are not downloadable from the Web available in a box sitting on a shelf in the Departmental lounge.

We may have occasional guest lecturers who will talk about their experimental research during our class. There may also be some experimental papers presented in the Department's Seminar series. I will announce these seminars in advance and strongly encourage you to attend.

I want to be available for you during the semester. My office hours are listed at the top of this course outline. If necessary, I will announce any changes in my office hours on Courselink and in class. You are also welcome to drop in at other times if my office door is open. If you are having any trouble finding me, please let me know by email or after class and I will set up an appointment with you.

Introduction

Camerer, C., *Behavioral Game Theory: Experiments in Strategic Interaction*, Russell Sage Foundation, Princeton University Press, 2003, Chapter 1.

Holt, Chapters 1, 2, and 3.

Markets

Forsythe, R., Palfrey, T. and Plott, C., "Asset Evaluation in an Experimental Market," *Econometrica*, 50, (1982), 537–567.

Smith, V., Suchanek, G. and Williams, A., "Bubbles, Crashes, and Endogenous Expectations in Experimental Spot Asset Markets," *Econometrica*, 56 (1988), 1119–1151.

Free-Riding and Social Dilemmas

Holt, Chapters 14 and 15.

Andreoni, J., "Why Free Ride: Strategies and Learning in Public Goods Experiments," *Journal of Public Economics*, 37 (1988), 291–304.

Andreoni, J., "Cooperation in Public Goods Experiments: Kindness or Confusion," *American Economic Review*, 85 (1995), 891–904.

Cadsby, C.B. and E. Maynes, "Voluntary Provision of Threshold Public Goods with Continuous Contributions: Experimental Evidence," *Journal of Public Economics*, 71 (1999), 53–73.

Kachelmeier, S. and M. Shehata, "Internal Auditing and Voluntary Cooperation in Firms: A Cross-Cultural Experiment," *The Accounting Review*, 72 (1997), 407–431.

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

Fairness, Trust, and Social Preferences

Holt, Chapters 12 and 13.

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

Croson, R., and Buchan, N., "The boundaries of trust: own and others' actions in the US and China," *Journal of Economic Behavior and Organization*, 55, (2004), 485–504.

Cadsby, C.B., Song, F., and Bi, Y., "Trust, Reciprocity and *Guanxi* in China: An Experimental Investigation," *Management and Organization Review* 8, 2, (2012), 397-421.

Fehr, E. and K.M. Schmidt, "A Theory of Fairness, Competition, and Cooperation," *Quarterly Journal of Economics*, August (1999), 817–868.

Charness, G. and M. Rabin, "Understanding Social Preferences with Simple Tests," *Quarterly Journal of Economics*, August (2002), 817–869.

Binmore, K. and Shaked, A., "Experimental Economics: Where Next?" *Journal of Economic Behavior and Organization*, 73, 1, (2010), 87–100.

Fehr, E. and K.M. Schmidt, "On Inequity Aversion: A Reply to Binmore and Shaked," *Journal of Economic Behavior and Organization*, 73, 1 (2010), 101–108.

Eckel, C. and Gintis, H., "Blaming the Messenger: Notes on the Current State of Experimental Economics," *Journal of Economic Behavior and Organization*, 73, 1 (2010), 109–119.

Binmore, K. and Shaked, A., "Experimental Economics: Where Next? Rejoinder," *Journal of Economic Behavior and Organization*, 73, 1 (2010), 120–121.

Coordination, Iterated Reasoning and Equilibrium Selection

Holt, Chapters 25 and 26.

Cooper, R., Dejong, D., Forsythe R. and Ross, T., "Selection criteria in coordination games: Some experimental results." *American Economic Review*, 80 (1990), 218–233.

Muller, R.A. and Sadanand, A., "Order of Play, Forward Induction, and Presentation Effects in Two-Person Games", *Experimental Economics*, 6, June, (2003), 5–25.

Amegashie, J.A., Cadsby, C.B. and Song, Y., "Competitive Burnout: Theory and Experimental Evidence," *Games and Economic Behavior*, 59, (2007), 213–239.

Macroeconomics

Duffy, J. and Fisher, E., "Sunspots in the Laboratory", *American Economic Review*, 95, (2005), 510–29.

Ricciuti, R., "Bringing Macroeconomics into the Lab," *Journal of Macroeconomics*, 30, 1, (2008), 216–237.

Experimental Finance

Cadsby, C.B., Frank, M. and Maksimovic, V., "Pooling, Separating and Semi-Separating Equilibria in Financial Markets: Some Experimental Evidence," *Review of Financial Studies*, 3 (1990), 315–342.

Cadsby, C.B., Frank, M. and Maksimovic, V., "Equilibrium Dominance in Experimental Asset Markets," *Review of Financial Studies*, 11 (1998), 189–232.

R. Forsythe, Lundholm, R. and Rietz, T., "Cheap Talk, Fraud, and Adverse Selection in Financial Markets: Some Experimental Evidence," *Review of Financial Studies*, 12 (1999), 353–362.

Haigh, M.S. and List, J. "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," *Journal of Finance*, 60, (2005) 523–534.

Tax Compliance

Alm, J., McClelland, G.H. and Schulze, W.D., "Why do People Pay Taxes?" *Journal of Public Economics*, 48 (1992), 21–38.

Cadsby, C.B., Maynes, E. and Trivedi, V.U., "Tax Compliance and Authority at Home and in the Lab: A New Experimental Approach," *Experimental Economics*, 9, 4, (2006), 343–359.

Financial Compensation, Peer Effects, Status and Performance

Cadsby, C.B., Song, F. and Tapon, F. "Sorting and Incentive Effects of Pay-for-Performance: An Experimental Investigation" *Academy of Management Journal*, 50, (2007), 387–405.

Gneezy, U., and Rustichini, A. "Pay Enough or Don't Pay At All," *Quarterly Journal of Economics* (2000), 791–810.

Ariely, D., Gneezy, U., Loewenstein, G. & Mazar, N., "Large stakes and big mistakes," *Review of Economic Studies*, 76, 2, (2009), 451–469.

Falk, A. and Ichino, A., "Clean Evidence on Peer Effects," *Journal of Labor Economics*, 24, 1, (2006), 39–57.

Charness, G., Masclet, D., Villeval, M.C., "Competitive Preferences and Status as an Incentive: Experimental Evidence," (2010), Working Paper.

Hossain, T. and List, J., "The Behaviorist Visits the Factory: Increasing Productivity using Simple Framing Manipulations," *Management Science* (2012), 2151–2167.

Cohn, A., Fehr, E., Herrmann, B., and Schneider, F., "Social Comparison in the Workplace: Evidence from a Field Experiment". (2011) Working Paper.

Cheating, Compensation, Goals and Agency

Schweitzer, M., Ordóñez, L. and Douma, B., "Goal Setting as a Motivator of Unethical Behavior," *Academy of Management Journal*, 47, (2004), 422–435.

Cadsby, C.B., Song, F. and Tapon, F. "Are You Paying Your Employees to Cheat? An Experimental Investigation," *The B.E. Journal of Economic Analysis & Policy*, 10, 1, (Contributions), (2010) Article 35.

Gender

Eckel, C. and Grossman, P., "Differences in the Economic Decisions of Men and Women: Experimental Evidence," In C. Plott and V. Smith, *Handbook of Experimental Economics Results*, (2008), 509–519.

Croson, R. and Gneezy, U., "Gender differences in preferences," *Journal of Economic Literature* 47, (2009), 448–474.

Cadsby, C.B. and Maynes, E., "Gender and Free Riding in a Threshold Public Goods Game: Experimental Evidence," *Journal of Economic Behavior and Organization*, 34, 4, (1998), 603–620.

Gneezy, U., Niederle, M., Rustichini, A., "Performance in Competitive Environments: Gender Differences," *Quarterly Journal of Economics*, August (2003), 1049–1074.

Niederle, M. and Vesterlund, L., "Do Women Shy away from Competition? Do Men Compete too Much?" *Quarterly Journal of Economics*, August (2007), 1067–1101.

Cadsby, C.B., Servátka, M. and Song, F., "How Competitive are Female Professionals? A Tale of Identity Conflict," *Journal of Economic Behavior and Organization*, 92, (2013), 284-303

Eckel, C. and Wilson, R., "Judging a Book by its Cover: Beauty and Expectations in a Trust Game," *Political Research Quarterly*, 59, 2, (2006), 189–202.

Bolton, G.E. and Katok, E., "An experimental test for gender differences in beneficent behavior," *Economics Letters*, 48, 3-4, (1995), 287–292.

Eckel, C. and Grossman, P., "Are Women Less Selfish Than Men? Evidence from Dictator Games," *The Economic Journal* 108, 448. (1998), 726–735.

Cadsby, C.B., Servátka, M. and Song, F., "Gender and Generosity: Does Degree of Anonymity or Group Gender Composition Matter?" *Experimental Economics* 13, 3, (2010), 299–308.

Risk Aversion, Rationality and Emotion

Holt, C. and Laury, S., "Risk Aversion and Incentive Effects," *American Economic Review*, 92, 5, (2002), 1644–1655.

Loewenstein, G., Weber, E., Hsee, C. & Welch, N., "Risk as Feelings," *Psychological Bulletin*, 127, (2001), 267–286.

Lejuez, C. W., Read, J. P., Kahler, C. W., Richards, J. B., Ramsey, S. E., Stuart, G. L., Strong, D. R., and Brown, R. A., "Evaluation of a behavioral measure of risk-taking: The Balloon Analogue Risk Task (BART)," *Journal of Experimental Psychology: Applied*, 8, (2002), 75–84.

Overconfidence

Camerer, C. and Lovallo, D., "Overconfidence and Excess Entry: An Experimental Approach," *American Economic Review*, 89, 1, (1999), 306–318.

Clark, J. and Friesen, L., "Overconfidence in Forecasts of own Performance: An Experimental Study," *Economic Journal*, 119, (2009), 229–251.

Concluding Thoughts

Camerer, C., *Behavioral Game Theory: Experiments in Strategic Interaction*, Russell Sage Foundation, Princeton University Press, 2003, Chapter 9.

Croson, R. and Gächter, S., "The Science of Experimental Economics," *Journal of Economic Behavior and Organization*, 73, 1, (2010), 122–131.

Course Evaluation: You will be asked to complete an evaluation of this course **in class** at some time during the last two weeks of the semester. The Department of Economics policy regarding the conduct and use of these evaluations will be found at:

<https://www.uoguelph.ca/economics/course-evaluation>