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Unless otherwise indicated, all material in this assignment is my original work.

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The best way to be happy is to satisfy expectations

Thesis

The ultimatum and dictator games, in the one shot form, narrows down the relevant stimuli in distributional behavior so that there is no selfish incentive to allocate equally such as in the repeated form (where future payoffs enter into calculation). The results of these games and variations thereof show that people change their behavior in response to tweaks in the framing and payoffs; painting a portrait of fairness compliance that is very flexible. Only a norm-based approach has the flexibility to consider the empirical data while being specific enough to avoid un-falsifiable predictions.

Bicchieri's normative model explains and predicts why an individual might allocate resources equally, deviate from equality, and change their behavior because of seemingly irrelevant changes in the framing or context of the situation. The occurrence of distinct human distributional behaviors, such as playing fair, are best explained by a tendency to 'follow scripts and obey fairness norms' so that individuals' coordinate their expectations and behaviors.[1] When deciding how to allocate resources people will look to what is being done before conforming to an inclination; all that is required is a sense of what the environment is eliciting in terms of prescriptive or descriptive behavior.

If a rational individual enters an ambiguous situation they seek to coordinate their expectations and behaviors with that of others. A norm is activated when an agent observes cues that tell them that a certain behavior is expected. Shared norms are required in order to explain how in ambiguous situations, self-serving biases occur in tandem with changes in the responders sensitivity to fairness because the process relies on a concern about expectations of the other party.[2]

Bicchieri's normative explanation for the phenomena observed in the ultimatum game is the most plausible because it explains how fairness is accomplished without appealing to moral reasons or fairness preferences. Her approach produces testable predictions that go beyond explaining the phenomena, and in doing so add credence to the model.

A Reason to be cautious about assuming this 'normative' explanation

[1] Bicchieri 100
[2] Bicchieri 112-15

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When humans had to hunt as a group we relied on the groups' strength to ensure successful future hunts. At this point individual survival depended on group survival and our selfish incentives were balanced with social incentives, which meant equal shares of meat for everyone was most efficient. We have had a partiality to egalitarian division since hunter-gatherer times which has evolved into a social moral tendency toward fairness that we balance with the tendency toward selfishness. We play ultimatum games fairly because deep down we 'know' fairness is right and we attempt to do what is fair within the limits of egoism.

Because we are rational, 'wealth maxi-mizers' as well as moral beings we must struggle to do the 'right thing', versus the left thing. A human being must decide but not based out of---------- The ultimatum game results show that we struggle to choose what is truly fair and sometimes bend the rules of fairness in our favor when we can. We engage in moral reasoning in order to decide if the situation calls for fairness or selfishness. The appearance of a self-serving bias is an example of selfishness beating out fairness as a personal rule of conduct for ambiguous situations. This is an internal struggle that is a function of survival, we rely on our ability to decide what is fair and unfair.

Second Objection to the Thesis (Economist objection)

The results of the ultimatum game can be explained through adaptation of traditional rational choice models. In these models people are concerned with the final distribution of a given allocation and prefer more to less; that is, they are rational wealth maximizers. However their utility functions are not narrowly selfish, individuals also have preferences over other people's outcomes—an agent's utility function includes others' utilities so that as the utility of others increases so does his. Fairness is therefore, a *social preference*, and the reason people play the ultimatum game fairly is because they have a preference for fair outcomes or aversion to unequal outcomes that factors into their decision making.

People are basically self-interested, rational agents who always attempt to get the largest payoff possible but are also cognizant of other outcomes. When a person appears to be acting irrationally in the ultimatum game by playing fair, their behavior can be explained in terms of self-interest. The actions of a proposer, for example, can be determined by their preference over beneficial inequality and their belief about what the responder might prefer regarding negative inequality. When preferences are applied to complex utility functions this model can also explain the variety of outcomes observed due to heterogeneous types of individuals. Some people may not be concerned with inequality which leaves them in a better place, and very concerned when inequality is disadvantageous to them. This is due to a rational process of calculation

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First Reply to the Objection

The previous view cannot adequately explain the phenomena observed in the ultimatum game and other experiments in which money is allocated. Evidence that cross-situational behavior is inconsistent with and sensitive to the context of a distributive circumstance, suggests error in any theory which holds fairness as a constant. It is much more likely that versions of fairness have been adhered to in varying degrees, at different times, across all cultures and societies. It is not evident in the experimental results that fairness has any tendency to be applied in cases where the situation does not elicit cues that lead the agent to *expect* fairness to be applied.

Although individuals must strike a balance between selfish incentives and fairness incentives, this is not an internal process but rather one which is conditional upon elicitation of scripts which validate or update our expectations. A self-serving bias, under the normative approach, is the product of an individuals' selfishness creating the illusion that a particular interpretation of fairness is more prominent in a given situation. The results of experiments by Messick and Sentis[3] show that we tend to prefer equality when we think we have done less, and prefer equity when we have done more. Underlying this selfish bias is the counterbalancing element of others' expectations.

The in-group bias behavior in Tajfel's experiments further clarifies why deviation from fairness is not explained by a struggle between selfishness and a moral tendency to be fair. The experiments demonstrate a moderate in-group bias even in situations of anonymity in which all that is known is a participants group status. This in-group bias cannot be explained by an allocators' self-interest winning out since the anonymity prevents him from being penalized or rewarded for in group loyalty. Furthermore, the allocation being made is between two other group members and so the allocator isn't concerned with their material outcome, he is just choosing. The experiments suggest that group loyalists *expect* reciprocation for in-group favoritism even if it isn't rational. Bicchieri's normative approach can consider these (incorrect) expectations as part of a script elicited because of the context and framing of the experiment. There is predictable reason for thinking someone might choose one version of fairness over the other, it isn't simply a matter of selfishness winning out.

Claiming that humans act fairly because of personal moral tendencies is distinct from Bicchieri's explanation. On her view there is no need to explain the moral origins of fairness because fairness doesn't exist unless enough people expect that others expect fairness to be a concern. Consider the case in which people are introduced to a situation in which they believe a rule of behavior applies, but are unsure what it is. In this case no rule actually exists, but people

[3] Bicchieri 133-5

act as if there was a norm that applies, thus generating the relevant expectations and preferences needed to create a norm. The creation of fairness norms doesn't require a vast empirical knowledge of human history because the same process of creation is observed regularly when humans are met with ambiguous situations.

Second Reply to the Objection:

Traditional rational choice models do not offer plausible explanations for behavior that isn't motivated by monetary or material incentives. This model relies on two assumptions that do not make sense of recent empirical data from ultimatum game experiments. This first is referred to as the consequentialist bias, "what matters to an agent is the final distribution, not the way the distribution came about."[4] However, ultimatum game results show that responders will reject low, nonzero offers even when the cost to themselves is substantial, a clear violation of more over less. This phenomenon can be explained by more complex utility functions that take into account others' preferences, but because of *separability* implications cannot take into account the full array of payoffs involved in other phenomena (mostly framing).

The second assumption made by rational choice theory is that preferences are stable. Under this assumption the ultimatum game results could be explained by a certain percent of the population having a benevolent nature. The implication of the theory is that this benevolent portion of the population adopts a consistent preference over situations of money allocation. A comparison of ultimatum and dictator game results show no such stability in preferences, when rejection is taken off the table the percentage of people who acted as if they had benevolent preferences make unequal offers. This suggests that the proposer changed his preference over fairness because of the change in circumstance. Its seems likely that his behavior is influenced by the expectations of others, results that can only be made sense of under a normative theory.

Fehr and Schmidt offer a model of inequality aversion that attempts to explain, in terms of rational preferences, how agents take into account the payoffs of others. The behavior of the proposer and responder is determined by their sensitivity to inequality and belief about the responders' sensitivity. The model overcomes the problem of rejecting non-zero offers because it can assume that the responder attributes a high value to the parameter that measures how much they dislike disadvantageous inequality. However the model still assumes that there is a *separability* of utility—that at each node of the extensive form of the ultimatum game the choices are the same and what matters is the utility of the payoff at each terminal node. This

[4] Bicchieri 101

implies that an individual should make similar choices regardless of how the situation is framed[5].

Hoffman's variation on the ultimatum game assigns proposers on a merit basis and compares the results to the classic ultimatum game. The results showed lower offers and lower rejection rates; evidence that, without communicating, the participants *expected* less fairness from the proposer position. The Fehr Schmidt model would have to say that, somehow, the situation was framed in a way that lowered the responder's preference for fairness for 'irrelevant'[6] reasons. Furthermore, it doesn't explain why the proposers lowered their offers and can't be used to predict (un-falsifiably) when such a behavior might occur. Bicchieri's norm-based model explains and predicts when a proposer might deviate from a fairness norm, without saying that their preferences have changed, a claim which can make non falsifiable predictions[7].

[5] Bicchieri 107-11

[6] Irrelevant because the information that the proposers earned their position based on merit / contest shouldn't weigh in on a responders decision, if, as a rational agent, they are only concerned with the outcomes at every node of the extensive form of the ultimatum game

[7] Bicchieri 123-6