Experiments, Hypothesis and Results

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- So how do we study preferences?

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- In the second case, it is not clear what value you attach to each pizza you buy.

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- Behavioral Economists try and induce preferences using the clear financial incentives from decision-makers/subjects.

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  - An extra unit of m can raise the subject's utility.
  - The convention in experimental economics is that cash best satisfies this assumption.

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- Some examples:
- Not revealing other players' payoffs (avoids other-regarding preferences)
- Not revealing the aims of the experiment (avoids experimenter demand effects)

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- ... but it can also introduce unexpected effects!

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- Others claim that the putative control inherent to the lab may prove counterproductive if the task is artificial to the subjects, and emphasise the importance of experience with the environment of interest in determining the external validity of any findings (Harrison and List, 2004).
- Experiments can still be useful tests for theories as long as the assumptions of the theories are met in the experimental design.

Lab and Field Experiments

See Figure 1

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  - If you are interested in studying the role of incentives, then why lie about them?
  - Public good problem: once subjects know they've been lied to, they won't believe the experimenters again (and they will spread the word!)

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- The question we can ask if by inducing decisions it is possible to derive an estimate of how the utility function looks?

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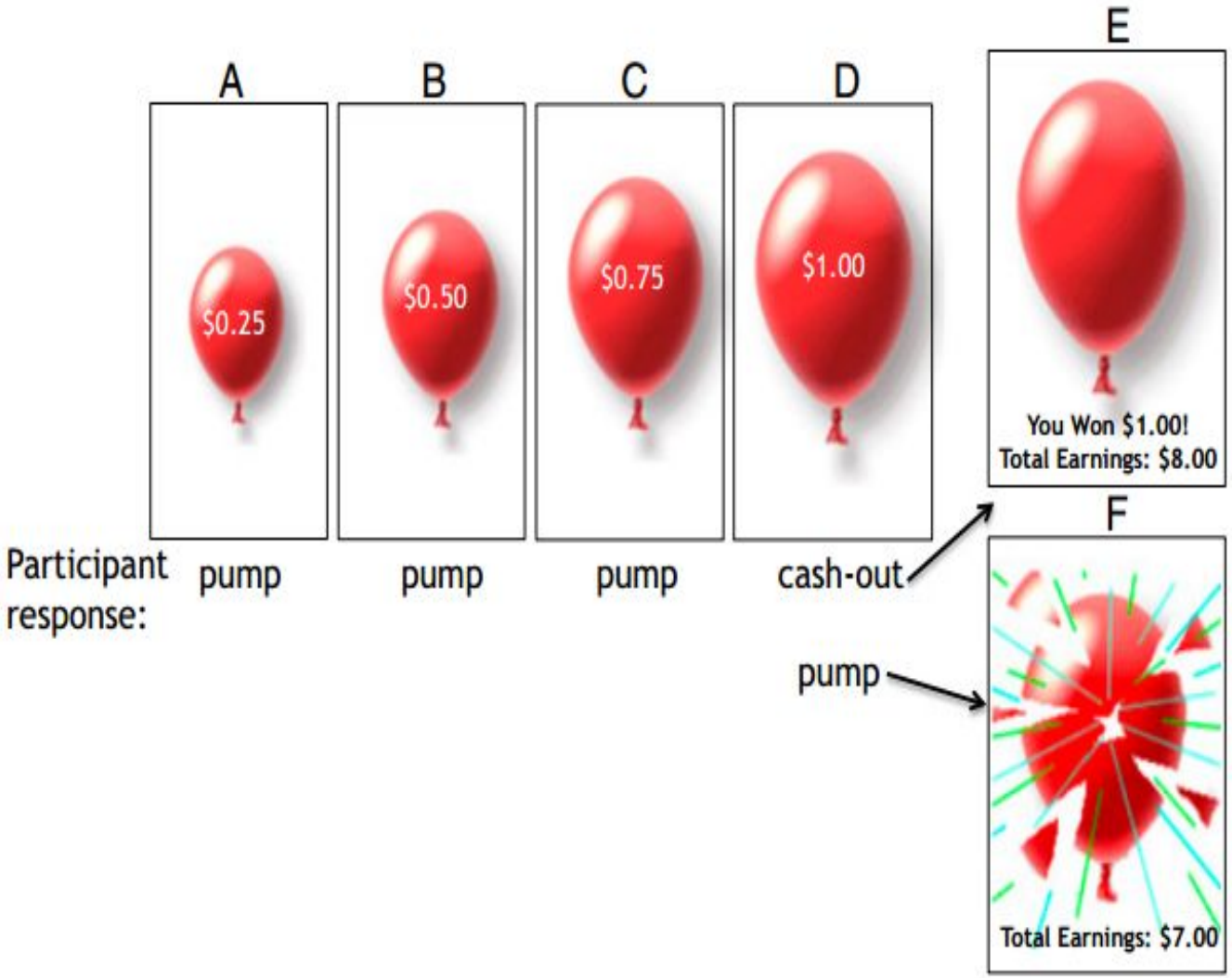
  - Subjects are presented with 90 different balloons
  - Average number of pumps in balloons that did not explode is measure of risk aversion

Balloon task



BART

See Figure 2

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- They show using simple questionnaire items that risk aversion is highly domain-specific
- Individuals who take risks in a social domain do not necessarily do so in a financial domain.

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More Methods - Gneezy and Potters Method

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- Therefore, a risk-neutral/risk-seeking subject should invest $X. The more risk averse one is, the less money one should invest.

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- At some point in the sequence, the subject will want to switch from one to the other.

See Figure 3.

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Using Holt and Laury method

See Figure 4

Testing for time preference

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- Some time we also write where is the interest rate.

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  - Assuming that we know the utility function-

Eliciting Time Preferences: Coller and Williams (1999)

See Figure 5

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- Anderson et al. (2008) See Figure 6

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- People get attached to the goods they have
- Ownership of the good it seems makes the good more valuable to the owner - endowment effect..

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- Economic theory would suggest that about half of the group have received their less preferred good (on average) - so they would like to trade it with the other good
- So the one of the papers find that only 10% members of the group want to trade.

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- Willingness to pay was average $ 2.21, and willingness to accept (WTA) was average $ 5.78

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  - Length of ownership may increase endowment effect.

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- Mani et al (2013) - tested this in both "lab" (controlled setting) and the field.

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  - After the questions all the participants were asked to solve a series of puzzles (Ravens matrices and spatial compatibility task)

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- See Figure 7

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- See Figure 8

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- No fine was introduced in the four other day-care centers, these were the control groups

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- But the high level of parents coming late remained.
- So what hapenned? How would you test for the reason why behaviour changed?