A Fine is a Price

* Deterrence hypothesis – Introduction of penalty that leaves everything else unchanged will reduce the occurrence of that behaviour subject to the fine.
* Hypothesis contradicted using study from daycare center. Fine implemented for parents that came late; the number of parents that came late increased significantly. When the fine was removed, no reduction in latecomers occurred.
* Fines usually applied in incomplete contracts. When they are implemented, they may change the information that agents have, which may cause a fine to have the opposite effect of what is expected.

Introduction

* General literature agrees that when negative consequences are imposed on a behaviour, a reduction of that behaviour will occur in response. When the negative consequences are removed, the original behaviour should reappear.
* The effectiveness of a punishment tends to decrease over time, furthermore the severity of the punishment impacts its effectiveness.
* A change in one of the parameters, such as the level of punishment, changes the decision problem of the single agent (and this fact would tend to reduce her preferred level of crime). This change, however, also changes the problem of the other agents, and their reactions, and therefore affects again the problem of the single decision maker.

The Study

* Conducted in Israel.
* No mention of what happens if parents pick up their children late (incomplete contract).
* The fine implemented was relatively small.
* The crime is relatively mild, therefore so is the punishment (hence difficult to compare to larger crimes). Furthermore, there is no uncertainty in terms of punishment (in a court of law there is uncertainty).

Models

* Assume that the fine changes the agents’ perception of the social situation that they are in.
* Before the fine was introduced, parents were uncertain about how they would be “punished,” hence they mostly arrived on time. When the fine was introduced it provided the parents with more information – they now had reason to believe that the small monetary fine was the worst that could happen.
* They test the fine, arrive later and later, yet still no worse punishment. Hence they continue to arrive later. When the fine is removed they still have no reason to believe they will be punished worse than the fine, hence they continue arriving late.

Social Norms

* Before the introduction of the fine, the teacher staying late to look after the children was likely to be taken as act of kindness. As such, parents were more likely to choose to not take advantage of the teacher’s perceived kindness. After the introduction of the fine, parents likely viewed the fine as paying for the service, hence did not feel bad about keeping their children there over time.
* Parents feel justified in their behaviour by a social norm that states, approximately: ‘‘When help is offered for no compensation in a moment of need, accept it with restraint. When a service is offered for a price, buy as much as you find convenient.’’