Written Exam for the M.Sc. in Economics summer school 2014

Behavioral and Experimental Economics

Final Exam

August 19, 2014

(2-hour closed book exam)

Please note that answers must be provided in English.

**All 5 questions have to be answered for obtaining the top grade.**

The exam has 4 pages in total (including cover page)

Question 1: Methodological aspects

a) In what ways is it problematic when an experimental study does not implement a ceteris paribus variation? (*Hint*: Slembeck and Tyran JEBO 2004 is an example).

b) Can experiments which fail to induce preferences as explained in the Induced Value Theory (Smith, AER 1982) nevertheless be interesting? Use an example to illustrate.

c) Explain the expression "experimenter demand effect". Why are such effects a problem? What can be done to mitigate the problem?

d) "First-wave" behavioral economics has been criticized as being irrelevant for economics. Use the example (from assignment 1) in which Swedish human resource managers are asked questions about workers' responses to wage cuts to illustrate some of these critiques (name three issues, describe the two scenarios first).
How can these issues be addressed in "second-wave behavioral economics" type of research? (*Hint*: refer to experiments by Fehr and Tyran in GEB 2007 and in ECMA 2008 but be brief).

e) Cappelen et al. (JEEA 2013) investigate how needs and entitlements shape dictator giving. They use a real effort task to study the issue. Describe the task. How does performance in this task depend on the origin of participants? (*Hint*: participants were from HI- and LI-countries). How do participants respond to differences in incentives? In what ways are these observations (answers to the last two questions) problematic and how can they be explained?


Question 2: Social Preferences

a) Describe the Ultimatum Game (Güth et al., JEBO 1982). What is the subgame-perfect Nash-equilibrium in this game?

b) What are the main stylized facts observed in the Ultimatum Game (UG)?

c) What are the approximate shares of players in the Dictator game (DG) who give nothing and who give half of the "pie" according to the meta study by Engel (ExEC 2011)?

d) What has been concluded from behavioral differences in UG and DG concerning "generosity" as a motive for giving?

e) The figure below is taken from (Cappelen et al. Ecs Letters 2013). Explain the design, including treatments Give and Take. How do the authors interpret the main result with respect to "generosity"?
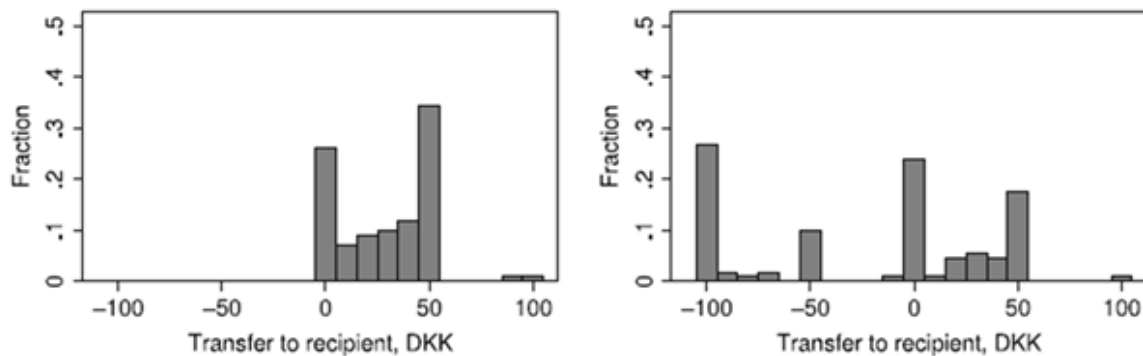

f) Describe the study by Franzen and Pointner (ExEc 2012). In what ways does this study shed light on the "generalizability" of findings in the dictator game?

Question 3: Biases in probability judgments

a) Name and briefly explain the four key assumptions of Prospect theory (Kahneman and Tversky, ECMA 1979).

b) The figure below shows the main finding in Snowberg and Wolfers (JPE, 2010) who study horse-track betting in the United States. What is approximately the rate of return per dollar bet for a "long shot" and a "favorite", respectively? How can this finding be related to prospect theory?
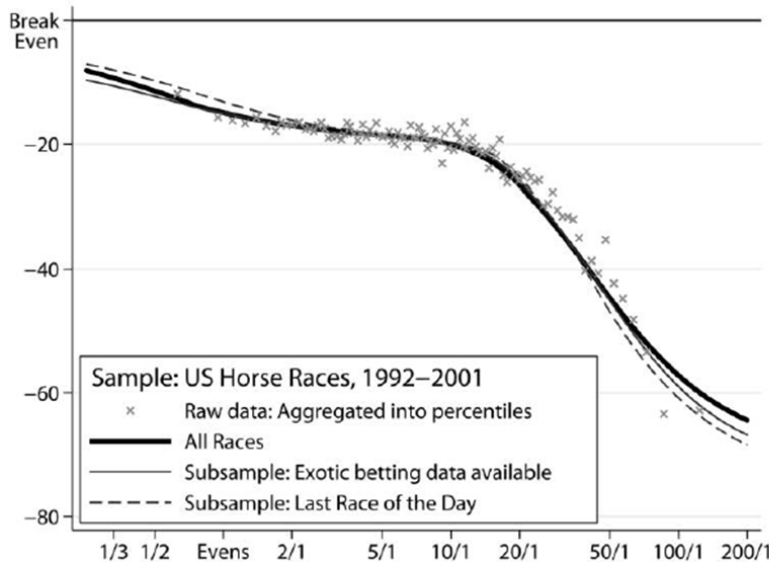
c) Friedman (AER 1998) observes that subjects do not "switch" as often as predicted by standard economic theory in the standard Monty Hall Game. Explain this game and the standard prediction. Name two treatment variations that can mitigate the "anomaly" and explain why these manipulations are expected to work.

d) The figure below is taken from Jørgensen, Suetens and Tyran (WP 2011) who study Lotto gambling in Denmark. Explain the finding shown in the figure and how it relates to the theory forwarded in Rabin and Vayanos (RES 2010). (*Hint*: be brief)
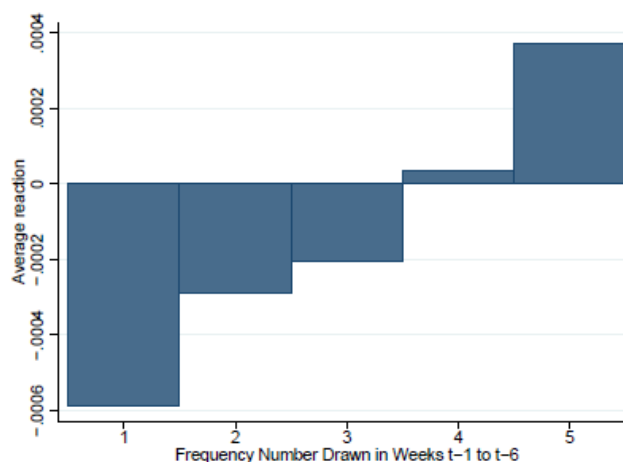
Question 4: Voting

Questions a) to c) refer to Sausgruber and Tyran (JPubE 2011) who study voting on taxation in goods markets. Questions d) and e) refer to Morton, Piovesan and Tyran (WP 2012).

a) "Tax LSE" serves as a benchmark to formulate the hypothesis of a "tax-shifting bias" in this paper. Explain these expressions and how they relate.

b) Describe the mechanism determining the tax regime and the tax rate in treatment BuyerTax, and explain why the procedure is incentive compatible.
(*Hint*: In treatment BuyerTax, the participants' choice variable is τ_{si}.)

c) What is the main finding from the comparison of treatment BuyerTax with SellerTax?

d) Morton et al. (WP 2012) investigate information aggregation in majority voting. Explain the mechanism for the case of a committee with $n = 3$ voters when each voter is presented with two options and knows the correct answer with a probability of 2/3.

e) Explain treatment "opinions" in Morton et al. (WP 2012) and why the authors implement it. What is the main finding? (*Hint*: refer to "easy" and "hard" questions)

Question 5: Cooperation and Institutions

a) Tyran and Feld (SJE, 2006) study the effect of voting on formal sanctions on cooperation. Describe treatment MildEnd.

Hint:

	No law	**Mild law**	**Severe law**
Exogenous	NoEx	MildEx	SevereEx
Endogenous	NoEnd	MildEnd	SevereEnd

b) What is the prediction for MildEnd if all players are fully rational and egoistic?

c) What do the authors observe in treatment MildEnd? How do contributions compare to MildEx? How do the authors explain these observations?

d) Markussen, Putterman and Tyran (RES, 2014) also implement a cooperation game with voting on sanctions. How does their treatment NC compare to MildEnd in Tyran and Feld (SJE 2006)?