

CONTENTS

Preface xiii

Chapter 1 Macroeconomics: A Survey of Laboratory Research 1

John Duffy

1. Introduction: Laboratory Macroeconomics 1
2. Dynamic, Intertemporal Optimization 4
 - 2.1. Optimal Consumption/Savings Decisions 4
 - 2.2. Exponential Discounting and Infinite Horizons 12
 - 2.3. Exponential or Hyperbolic Discounting? 13
 - 2.4. Expectation Formation 14
3. Coordination Problems 21
 - 3.1. Poverty Traps 21
 - 3.2. Bank Runs 24
 - 3.3. Resolving Coordination Problems: Sunspots 27
 - 3.4. Resolving Coordination Problems: The Global Game Approach 30
4. Fields in Macroeconomics 32
 - 4.1. Monetary Economics 33
 - 4.2. Labor Economics 46
 - 4.3. International Economics 50
 - 4.4. Multisectoral Macroeconomics 55
5. Macroeconomic Policies 61
 - 5.1. Ricardian Equivalence 61
 - 5.2. Commitment versus Discretion 64
 - 5.3. Monetary Policy 67
 - 5.4. Fiscal and Tax Policies 73
6. Conclusions 78

Acknowledgments 79

Notes 79

References 82

Chapter 2 Using Experimental Methods to Understand Why and How We Give to Charity 91

Lise Vesterlund

1. Introduction 91
2. Preferences for Giving 92
 - 2.1. Is Giving Rational? 95
 - 2.2. Motives 97

3. Fundraising	108
3.1. Announcements: Sequential and Dynamic Giving	109
3.2. Lotteries	119
3.3. Auctions	123
3.4. Rebates and Matches	126
4. Conclusion	131
Notes	133
References	141

Chapter 3 Neuroeconomics 153

Colin F. Camerer, Jonathan D. Cohen, Ernst Fehr, Paul W. Glimcher, and David Laibson

INTRODUCTION	153
1. Neurobiological Foundations	156
1.1. The Cellular Structure of the Brain	156
1.2. From Neurons to Networks	161
1.3. Summary of Neurobiology	164
2. Functional MRI: A Window into the Working Brain	164
2.1. Functional MRI and the BOLD Signal	165
2.2. Design Considerations	166
2.3. Image Analysis	168
2.4. Summary of Functional MRI	171
3. Risky Choice	172
3.1. Statistical Moments	172
3.2. Prospect Theory	172
3.3. Causal Manipulations	175
3.4. Logical Rationality and Biological Adaptation	176
3.5. Summary of Risky Choice	177
4. Intertemporal Choice and Self-regulation	177
4.1. Empirical Regularities	178
4.2. Multiple-Self Models with Selves That Have Overlapping Periods of Control	181
4.3. Multiple-Self Models with Selves That Have Nonoverlapping Periods of Control	182
4.4. Unitary-Self Models	182
4.5. Theoretical Summary	183
5. The Neural Circuitry of Social Preferences	183
5.1. Social Preferences and Reward Circuitry	184
5.2. Do Activations in Reward Circuitry Predict Choices?	186
5.3. The Role of the Prefrontal Cortex in Decisions Involving Social Preferences	186
5.4. Summary	188
6. Strategic Thinking	189
6.1. Strategic Awareness	189
6.2. Beliefs, Iterated Beliefs, and Strategic Choice	190

6.3. Learning	192
6.4. Strategic Teaching and Influence Value	194
6.5. Discussion of Strategic Neuroscience	196
6.6. Summary	199
7. Conclusion	200
<i>Acknowledgments</i>	200
<i>Notes</i>	201
<i>References</i>	202

Chapter 4 Other-Regarding Preferences: A Selective Survey of Experimental Results 217

David J. Cooper and John H. Kagel

INTRODUCTION	217
I. Where Things Stood Circa 1995	218
II. Models of Other-Regarding Preferences, Theory, and Tests	222
A. Outcome-Based Social Preference Models	222
B. Some Initial Tests of the Bolton-Ockenfels and Fehr-Schmidt Models	225
C. Social Preferences versus Difference Aversion	231
D. Models Incorporating Reciprocity/Intentions of Proposers	233
E. Other-Regarding Behavior and Utility Maximization	235
F. Learning	236
III. Other-Regarding Behavior, Applications, and Regularities	240
A. The Investment/Trust Game	240
B. Results from Multilateral Bargaining Experiments	242
C. A Second Look at Dictator Games	244
D. Procedural Fairness	247
E. Diffusion of Responsibility	249
F. Group Identity and Social Preferences	253
G. Generalizability	255
IV. Gift Exchange Experiments	259
A. An Initial Series of Experiments	259
B. Incomplete Contracts	261
C. Wage Rigidity	262
D. The Effect of Cognitive Ability and the Big Five Personality Characteristics in Other-Regarding Behavior	264
E. Why Does Gift Exchange Occur?	265
F. Laboratory versus Field Settings and Real Effort	267
G. Summary	274
V. Conclusions	274
<i>Acknowledgments</i>	276
<i>Notes</i>	277
<i>References</i>	282

Chapter 5 Experiments in Market Design 290

Alvin E. Roth

1. Introduction 290
2. Some Early Design Experiments: Allocation of Airport Slots 295
3. FCC Spectrum Auctions 300
4. Other Auctions 307
 - 4.1. eBay Auctions 307
 - 4.2. A Poorly Designed Auction (for Medicare Supplies) 316
5. Labor Market Clearinghouses 318
 - 5.1. Designing Labor Markets for Doctors 318
 - 5.2. Matching without a Clearinghouse: The Market for Economists, and Online Dating 327
6. Course Allocation 329
7. Conclusions 333

Notes 334

References 339

Chapter 6 Experiments in Political Economy 347

Thomas R. Palfrey

1. Introduction and Overview 347
 - 1.1. Methodology: Relationship to Experimental Economics 348
 - 1.2. Chapter Road Map 350
2. Experiments in Committee Bargaining 352
 - 2.1. Unstructured Committee Bargaining 352
 - 2.2. Committee Bargaining with a Fixed Extensive Form Structure 359
3. Elections and Candidate Competition 381
 - 3.1. The Spatial Model of Competitive Elections and the Median Voter Theorem 381
 - 3.2. Multicandidate Elections 387
 - 3.3. Candidate Competition with Valence 390
4. Voter Turnout 392
 - 4.1. Instrumental Voting Experiments 392
 - 4.2. The Effects of Beliefs, Communication, and Information on Turnout 397
 - 4.3. Expressive Voting Experiments 398
5. Information Aggregation in Committees 400
 - 5.1. Condorcet Jury Experiments 400
 - 5.2. The Swing Voter's Curse 406
6. Voting Mechanisms that Reflect Preference Intensity 410
 - 6.1. Mechanisms Where a Budget of Votes Can Be Allocated Across Issues 411
 - 6.2. Vote Trading and Vote Markets 414
7. Where Do We Go From Here? 418

<i>Acknowledgments</i>	419
<i>Notes</i>	419
<i>References</i>	424

Chapter 7 Experimental Economics across Subject Populations 435

Guillaume R. Fréchet

I. Introduction	435
II. Infrahumans	438
II.A. Methodological Notes	443
III. Children	444
III.A. Methodological Notes	449
IV. Token Economies	449
IV.A. Methodological Notes	451
V. Elderly	451
V.A. Methodological Notes	455
VI. Highly Demographically Varied (Representative) Sample	455
VI.A. Methodological Notes	460
VII. Subjects with Relevant Task Experience	461
VII.A. Methodological Notes	468
VIII. Discussion	468
VIII.A. Individual Choice	469
VIII.B. Games	470
IX. Conclusion	471

<i>Acknowledgments</i>	472
<i>Notes</i>	472
<i>References</i>	475

Chapter 8 Gender 481

Muriel Niederle

I. Introduction	481
II. Gender Differences in Competitiveness	485
II.A. Do Women Shy Away from Competition?	486
II.B. Replication and Robustness of Women Shying Away from Competition	489
II.C. Reducing the Gender Gap in Tournament Entry	492
II.D. Performance in Tournaments	497
II.E. Field Experiments on Gender Differences in Competitiveness	503
II.F. External Relevance of Competitiveness	504
III. Gender Differences in Selecting Challenging Tasks and Speaking Up	507
III.A. Gender Differences in Task Choice	507
III.B. Gender Differences in Speaking up	510
IV. Altruism and Cooperation	512

IV.A.	Dictator-Style Games	515
IV.B.	Field Evidence and External Relevance of Gender Differences in Giving	519
IV.C.	Prisoner's Dilemma and Public Good Games	520
IV.D.	New Directions	523
IV.E.	Conclusions	524
V.	Risk	525
V.A.	Early Work and Surveys by Psychologists	527
V.B.	Early and Most Commonly Used Elicitation Methods in Economics	530
V.C.	Early Economic Surveys	533
V.D.	Recent Economic Surveys and Meta-Analyses on Specific Elicitation Tasks	535
V.E.	Stability of Risk Preferences and Their External Relevance	538
V.F.	An Example of a Careful Control for Risk Aversion	543
V.G.	Conclusions	545
VI.	Conclusions	546
	<i>Acknowledgments</i>	547
	<i>Notes</i>	547
	<i>References</i>	553

Chapter 9 Auctions: A Survey of Experimental Research 563

John H. Kagel and Dan Levin

INTRODUCTION	563
I.	Single-Unit Private Value Auctions 564
1.1.	Bidding above the RNNE in First-Price Private Value Auctions 565
1.2.	Bidding above the RNNE and Regret Theory 568
1.3.	Using Experimental Data to Corroborate Maintained Hypotheses in Empirical Applications to Field Data 569
1.4.	Second-Price Private Value Auctions 570
1.5.	Asymmetric Private Value Auctions 572
1.6.	Sequential Auctions 576
1.7.	Procurement Auctions 578
1.8.	Cash-Balance Effects and the Role of Outside Earnings On Bids 580
1.9.	An Unresolved Methodological Issue 581
II.	Single-Unit Common Value Auctions 582
2.1.	English Auctions 583
2.2.	Auctions with Insider Information 587
2.3.	Common Value Auctions with an Advantaged Bidder 588
2.4.	New Results in the Takeover Game: Theory and Experiments 590
2.5.	Additional Common Value Auction Results 592
2.6.	Is the Winner's Curse Confined to College Sophomores? 596
III.	Multiunit-Demand Auctions 598
3.1.	Auctions with Homogeneous Goods—Uniform Price and Vickrey Auctions 598
3.2.	More on Multiunit-Demand Vickrey Auctions 604

3.3. Auctions with Synergies	605
3.4. Sequential Auctions with Multiunit-Demand Bidders	607
IV. Additional Topics	610
4.1. Collusion in Auctions	610
4.2. Bidder's Choice Auctions: Creating Competition Out of Thin Air	615
4.3. Internet Auctions	617
4.4. Entry into Auctions	619
V. Summary and Conclusions	623
<i>Acknowledgments</i>	623
<i>Notes</i>	623
<i>References</i>	629

Chapter 10 Learning and the Economics of Small Decisions 638

Ido Erev and Ernan Haruvy

INTRODUCTION	638
1. The Basic Properties of Decisions from Experience	641
1.1. Six Basic Regularities and a Model	641
1.2. The Effect of Limited Feedback	663
1.3. Two Choice-Prediction Competitions	665
2. Dynamic Environments	668
2.1. The Partial Reinforcement Extinction Effect and Reinforcement Schedules	668
2.2. Spontaneous Alternation, the Gambler Fallacy, and Response to Patterns	670
2.3. Negative and Positive Transfer	671
2.4. The Effect of Delay and Melioration	671
2.5. Models of Learning in Dynamic Settings	672
3. Multiple Alternatives and Additional Stimuli	672
3.1. Successive Approximations, Hill Climbing, and the Neighborhood Effect	672
3.2. Learned Helplessness	674
3.3. Multiple Alternatives with Complete Feedback	675
3.4. The Effect of Additional Stimuli (Beyond Clicking)	675
4. Social Interactions and Learning in Games	677
4.1. Social Interactions Given Limited Prior Information	678
4.2. Learning in Constant-Sum Games with Unique Mixed-Strategy Equilibrium	680
4.3. Cooperation, Coordination, and Reciprocation	683
4.4. Fairness and Inequity Aversion	687
4.5. Summary and Alternative Approaches	688
5. Applications and the Economics of Small Decisions	688
5.1. The Negative Effect of Punishments	688
5.2. The Enforcement of Safety Rules	689
5.3. Cheating in Exams	691
5.4. Broken Windows Theory, Quality of Life, and Safety Climate	692

5.5. Hand Washing	692
5.6. The Effect of the Timing of Warning Signs	693
5.7. Safety Devices and the Buying-Using Gap	693
5.8. The Effect of Rare Terrorist Attacks	694
5.9. Emphasis-Change Training, Flight School, and Basketball	695
5.10. The Pat-on-the-Back Paradox	695
5.11. Gambling and the Medium-Prize Paradox	696
5.12. The Evolution of Social Groups	696
5.13. Product Updating	697
5.14. Unemployment	697
5.15. Interpersonal Conflicts and the Description-Experience Gap	698
5.16. Implications for Financial Decisions	699
5.17. Summary and the Innovations-Discoveries Gap	699
6. Conclusion	700
<i>Acknowledgments</i>	701
<i>Notes</i>	701
<i>References</i>	702
<i>Editors and Contributors</i>	717
<i>Illustration Credits</i>	721
<i>Name Index</i>	725
<i>Subject Index</i>	737