

CONTENTS

<i>List of Figures</i>	xxi
<i>List of Tables</i>	xxv
Introduction to Volume 4	1
Introduction to Behavioral Economics and the Book Volumes	5
1 Some antecedents of behavioral economics	7
2 On methodology in economics	8
3 The experimental method in economics	14
3.1 Experiments and internal validity	15
3.2 Subject pools used in lab experiments	17
3.3 Stake sizes in experiments	18
3.4 The issue of the external validity of lab findings	18
3.5 The role of incentives in economics	20
3.6 Is survey data of any use?	23
3.7 Replications in experimental economics	25
4 Approach and organization of the book	26
5 Appendix A: The random lottery incentive mechanism	31
6 Appendix B: In lieu of a problem set	31
1 The Evidence on Strategic Human Choice	40
1.1 Introduction	40
1.2 Iterated deletion of dominated strategies	51
1.2.1 Failure of two steps of iterated dominance	52
1.2.2 Framing effects and failure of three steps of iterated dominance	54
1.2.3 Centipede games and failure of higher order steps of iterated dominance	56
1.2.4 Evidence from mechanism design problems that are dominance solvable	61
1.3 Mixed strategy Nash equilibria	65
1.3.1 Do people play mixed strategy equilibria in games within a general context?	66
1.3.2 Do people play MSE in games within an economic context?	74
1.3.3 Do people play MSE when they have a mixed strategy device?	76
1.3.4 Do professionals play mixed strategy equilibria?	79
1.4 Coordination games	86
1.4.1 Evidence on coordination failures	86
1.4.2 Focal points and coordination	87
1.4.3 Coordination failures in median action games	91
1.4.4 Coordination failures in weak link games	94

1.4.5	More evidence on equilibrium selection principles	95
1.4.6	Coordination and the optimization premium in stag-hunt games	96
1.4.7	Forward induction, timing, and coordination failures	97
1.4.8	Preplay communication and coordination failures	99
1.4.9	Historical accidents and choice among coordination equilibria	100
1.4.10	Financial incentives and coordination	101
1.4.11	Loss aversion and coordination	104
1.4.12	Achieving coordination with gradual growth in group sizes	106
1.4.13	Intergenerational advice and coordination	108
1.4.14	External arbiter recommendations	111
1.4.15	Communication, experience, and coordination	112
1.4.16	Coordination in repeated games	114
1.5	Bargaining games	115
1.5.1	Normative bargaining solutions	115
1.5.2	Positive bargaining solutions	122
1.5.3	Self-serving bias and focal points in bargaining	142
1.5.4	Inferring cognition through search and lookups in a bargaining game	145
1.6	Asymmetric information, signaling, and cheap talk	149
1.6.1	Evidence from a generic signaling game	149
1.6.2	An application to a limit entry pricing game	152
1.6.3	Finitely repeated games of asymmetric information	158
1.6.4	Signaling in corporate finance	160
1.6.5	Leader contributions to charitable giving: signaling or reciprocity?	165
1.6.6	Multiple signals	169
1.6.7	Two-sided asymmetric information	172
1.7	Public signals and correlated equilibria	173
1.8	Strategic complements and strategic substitutes	181
1.8.1	Implications of SS and SC for the degree of cooperation	182
1.8.2	The macroeconomics of nominal inertia	186
1.9	A digression on competitive equilibrium experiments	193
1.9.1	The original market experiments by Chamberlin (1948)	194
1.9.2	Double auction tests of a competitive equilibrium	198
1.9.3	Agent-based models of competitive double auction markets	202
1.9.4	Evaluating the experimental evidence on competitive markets	203
2	Models of Behavioral Game Theory	205
2.1	Introduction	205
2.2	Quantal response equilibrium (QRE)	211
2.2.1	QRE in normal form games	212
2.2.2	QRE in extensive form games	218
2.2.3	Does the QRE impose falsifiable restrictions?	220
2.2.4	An application of QRE to the traveler's dilemma game	222
2.3	Level- k and cognitive hierarchy models	224
2.3.1	The level- k model	224
2.3.2	The p-beauty contest	226
2.3.3	The cognitive hierarchy model (CH)	231

2.4	Applications of level- k and CH models	234
2.4.1	Is the power of focal points limited?	234
2.4.2	Coordination and communication with boundedly rational players	237
2.4.3	Risk dominance and payoff dominance in sender–receiver games	241
2.4.4	The market entry game	244
2.4.5	Empirical evidence on level- k models	246
2.4.6	Do non-strategic players exist?	252
2.5	Psychological game theory	255
2.5.1	Psychological Nash equilibria in single-stage games	258
2.5.2	Psychological sequential Nash equilibria in multi-stage games	262
2.5.3	Fairness and reciprocity in extensive form games	267
2.5.4	Fairness, reciprocity, and inequity-aversion in extensive form games	275
2.5.5	Guilt in games	280
2.5.6	Dependence of utility on plans	290
2.6	Correlated equilibrium and social norms	292
2.7	Other behavioral models of how people play games	296
2.7.1	Analogy-based equilibrium	296
2.7.2	Subjective heterogeneous quantal response equilibrium	300
2.7.3	Cursed equilibrium	302
2.7.4	Evidential equilibrium	304
2.7.5	Noisy introspection	314
2.7.6	A brief note on some other models	317
2.8	Behavioral economics of auctions	319
2.8.1	Some basic results in auction theory	319
2.8.2	Some empirical evidence on the predictions of the rational auctions model	323
2.8.3	Cursed equilibrium as an explanation of the winner's curse	326
2.8.4	A level- k explanation of the winner's curse	328
3	A Guide to Further Reading	334
3.1	Introduction	334
3.2	Kantian rationality and cooperation	335
3.3	Topics in behavioral game theory	339
3.3.1	Communication and contract design	339
3.3.2	Stability of levels across games in level- k models	340
3.3.3	Team reasoning	341
3.3.4	Bargaining field experiments	341
3.3.5	Winner's curse with public signals only	342
3.4	On human cooperation	343
3.4.1	Optimization premium and cooperation rates in prisoner's dilemma games	343
3.4.2	Team incentives and individual incentives	344
3.4.3	Cooperation in the gain and loss domains	345
3.4.4	Communication and individual vs team decisions in a PD game	346
3.5	Correlated equilibrium, payoff inequity, and level- k reasoning	347
3.6	Psychological game theory	350
3.6.1	Belief elicitation and belief consistency	350
3.6.2	Why do people keep promises?	351
3.6.3	Contributions to public goods with induced beliefs	352

3.7 The behavioral economics of microfinance contracts	353
3.7.1 A simple model	354
3.7.2 The predictions of the classical self-regarding model	356
3.7.3 The predictions of a behavioral model	358
3.7.4 Empirical evidence	363
3.8 Exercises for Volume 4	365
<i>Appendix A</i>	375
<i>Appendix B</i>	397
<i>References for Volume 4</i>	401
<i>Name Index</i>	421
<i>Subject Index</i>	426