



EE4 I 6: Behavioral Economics

SOCIAL PREFERENCE

Econs VS. Humans

Econs



- Rational actors
- Make the optimal choice based on calculated costs and benefits
- Selfish

Humans

- Irrational
- Emotional
- Reflexive, effortless, impulsive, and short-sighted.



“We’re more like Homer Simpson, than we are like Spock”
– *Richard Thaler, Nobel Prize-winning economist*



Are These Behaviors Rational?



Voluntary unpaid work



Giving to charity



Give up a seat on bus to elderly, child, or pregnant woman



Monopolies not raising prices when there are shortages

What Are Social Preferences?

A characteristic of an individual's behavior or motives, indicating that the individual **cares positively or negatively about others'** material payoffs or well-being

- Those with social preferences display other-regarding motives:
 - They take the happiness of others into account when they make decisions
 - Might be willing to give up some material payoff to help others

Anomalies in Standard Economics

Altruistic



Confers a benefit to others,
while involving a cost to the
originator of the behavior, with
no material benefit

Spiteful



Cost onto others, while also
involving a cost to the
originator of the behavior, with
no material benefit

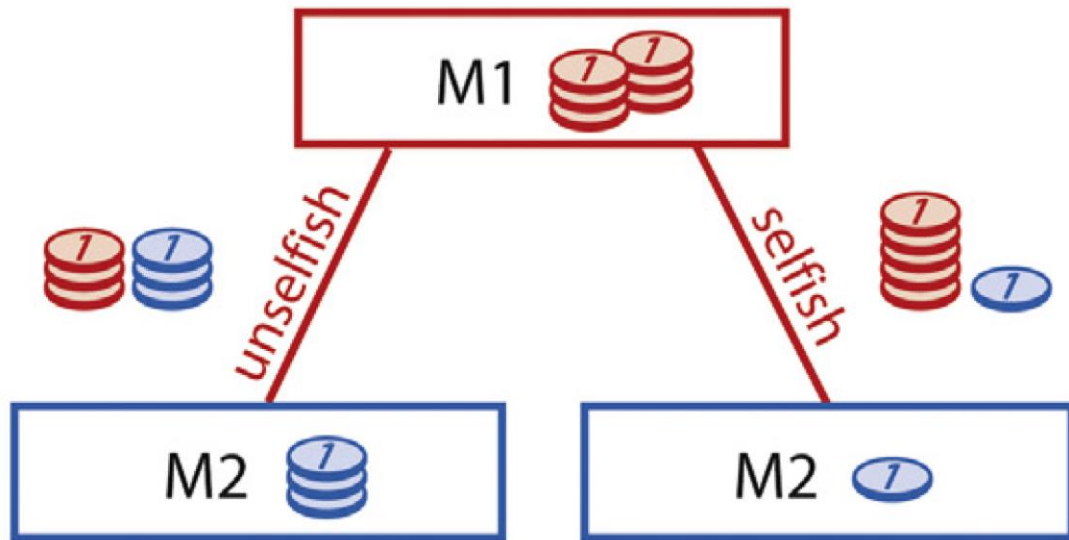
Both behaviors give psychological (i.e., not economic) benefits

Evidence from laboratory: Dictator Game

Dictator Game (DG)

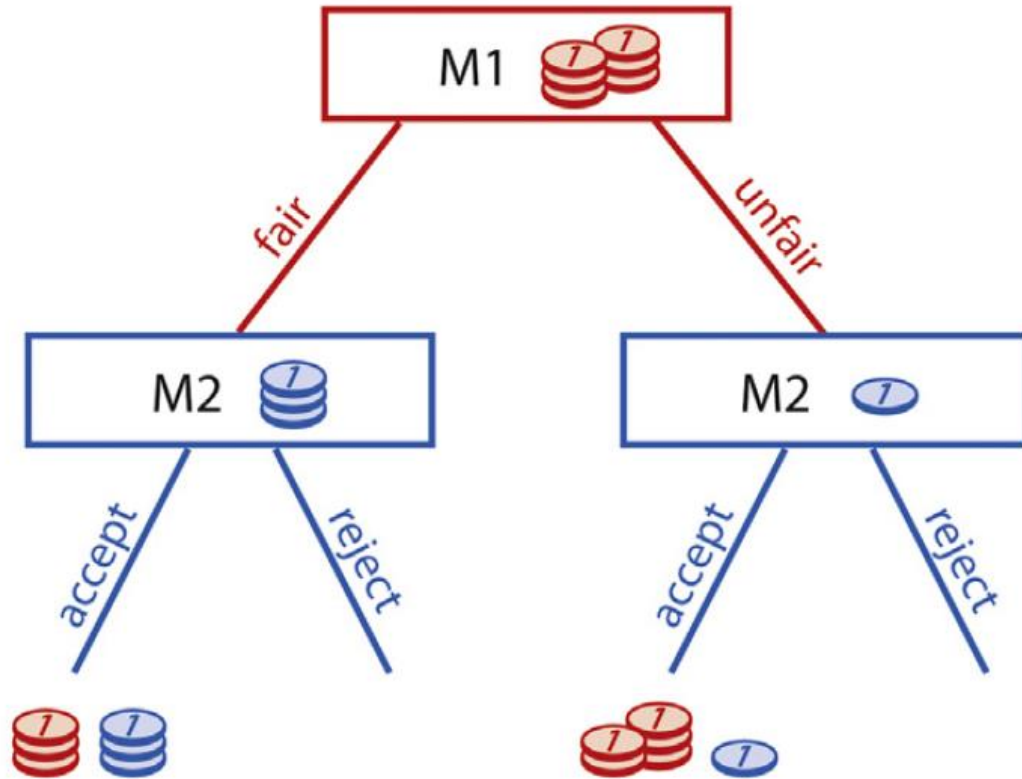
On average, the most common amount sent to the other person is 0% or 50% of your endowment

Many people don't keep all the money for themselves!



Evidence from laboratory: Ultimatum Game

Ultimatum Game (UG)



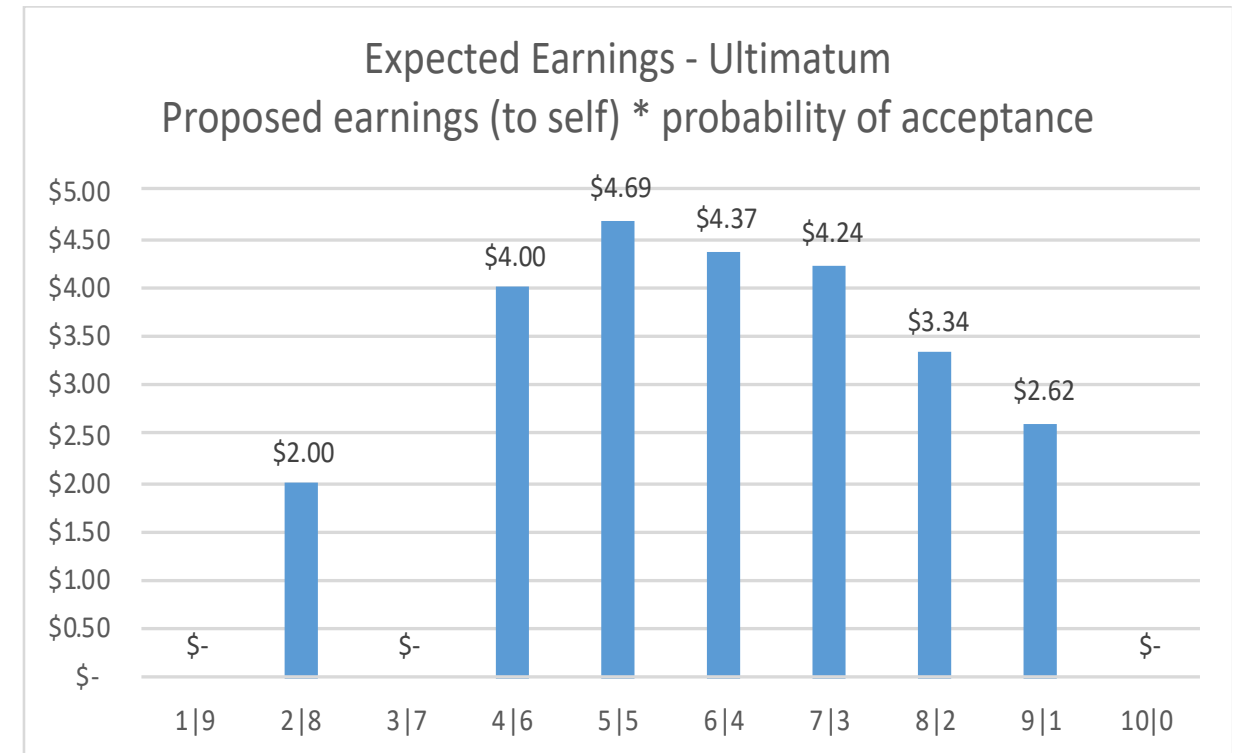
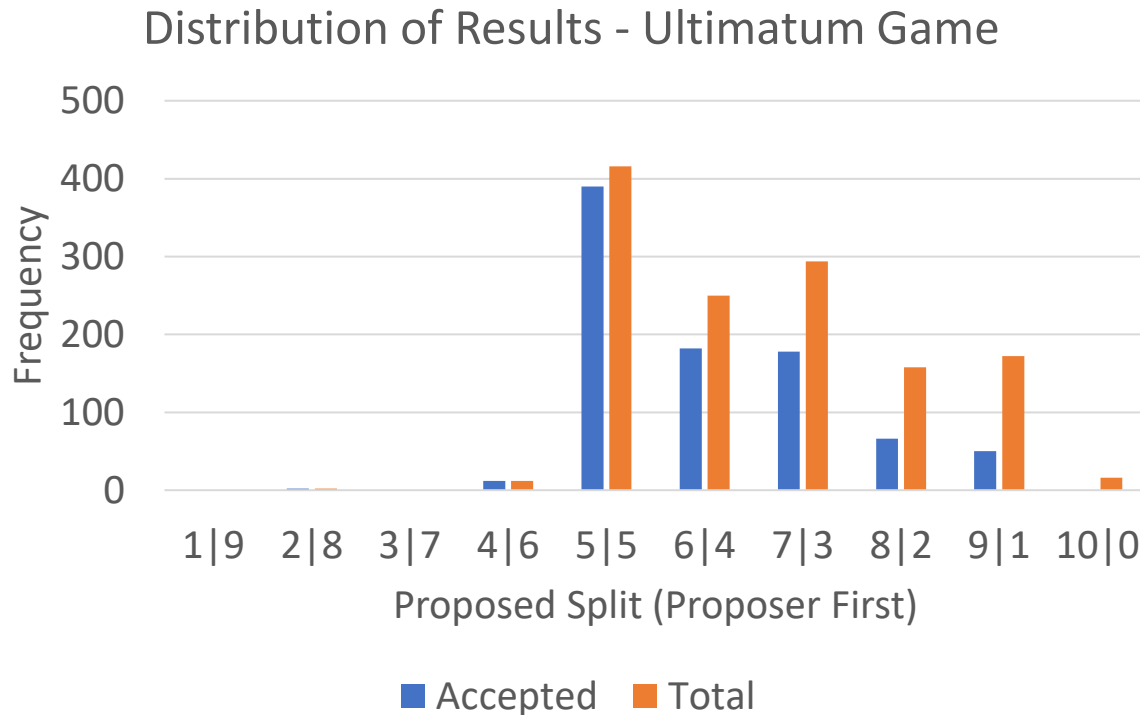
Standard economic theory (without social preferences) predicts the following about the ultimatum game:

- A. Proposers (M1) should offer fair splits; responders (M2) accept fair splits
- B. Proposers should offer smallest positive amount; responders accept smallest positive amount
- C. Proposers should offer nothing; responders reject the offer of nothing
- D. Whatever the proposers offer the responders should reject



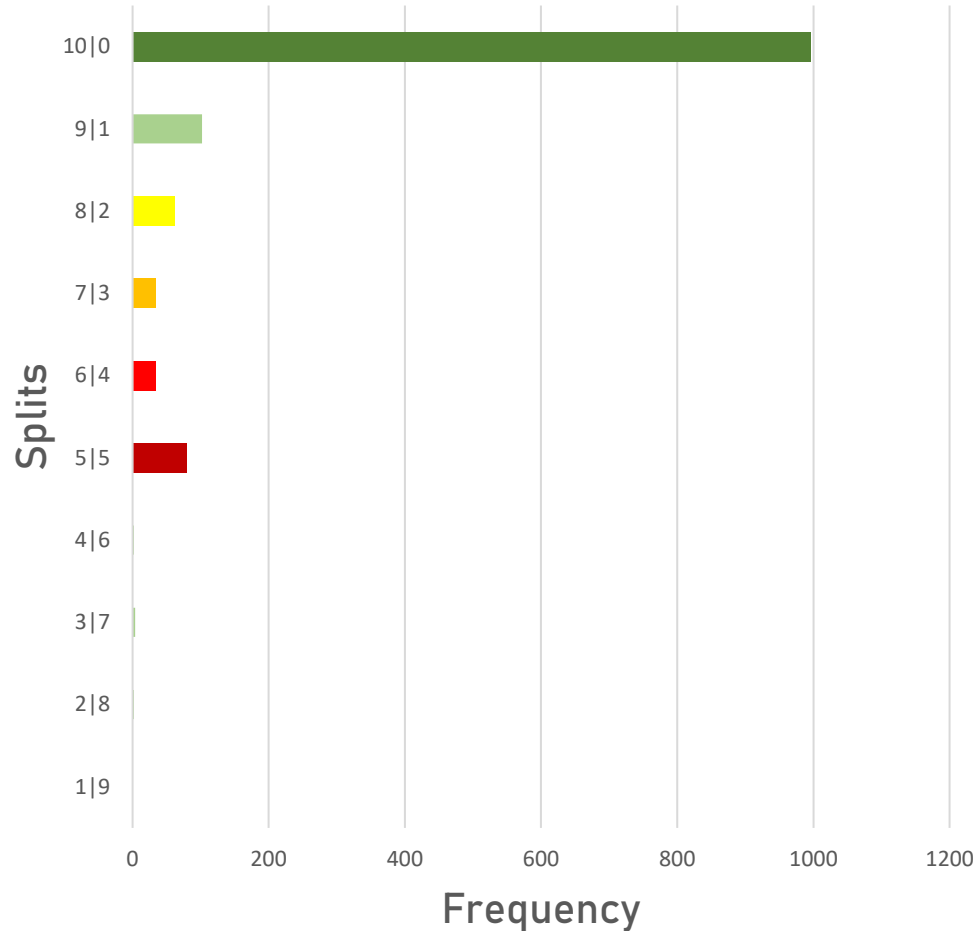
Result from Ultimatum Game

- Finding: rejections punish for unfair offers
 - Offers less than 20% are rejected ½ the time
 - Proposers anticipate this and offer about 40% of endowment on average

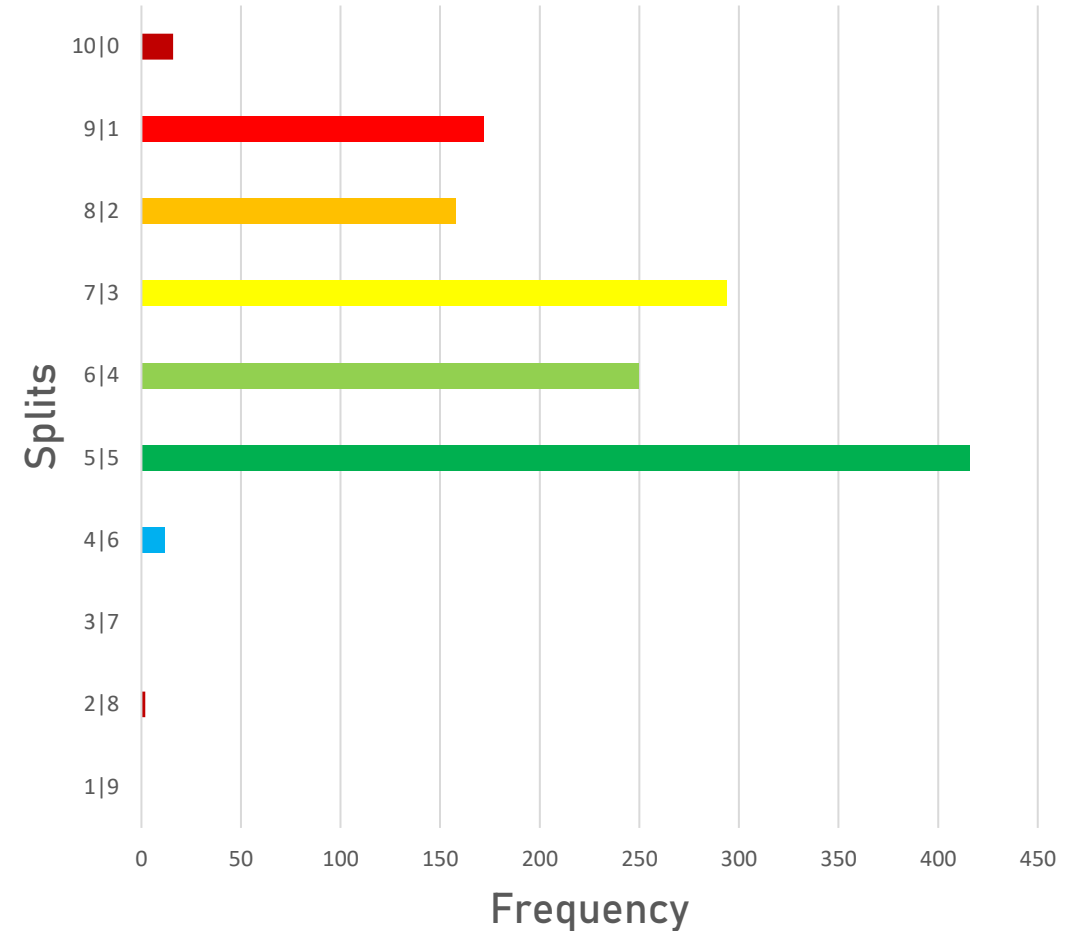


Dictator Game VS. Ultimatum Game

Distribution of Offers - Dictator Game



Distribution of Offers - Ultimatum Game



Summary

- Any positive offer in the dictator game is altruistic, as opposed to strategic (i.e., caused by the fear of rejection)
- Dictators offer much lower than proposers from ultimatum game
- Positive offers from the ultimatum game are mainly strategic, but there is some altruism involved.

Are we only species that is irrational?

- <https://www.youtube.com/watch?v=-KSryJXDpZo>

Theories of Social Preferences

Theories of social preferences assume:

- Subjects' utility functions depend on more than just their own material payoff
- Also depend on non-monetary payoff elements, such as



Fairness



Reciprocity



Equality

Theories of Social Preference

Reciprocal Fairness



- We positively value others' kind intentions, while negatively valuing their hostile intentions
- If A reduces B's payoff to his own benefit, a reciprocal player B will punish A
- If bad luck led to a redistribution of income from B to A, a reciprocal player B will not punish

Inequity Aversion



- A dislike of unequal outcomes
- You are unhappy when you have more or less than others

Warm Glow



- Individuals have desire to increase the economic welfare of the group to which they belong
- Giving money induces a worthwhile feeling
- Giving any amount makes you happy

Factors That Could Affect Social Preferences

Methodological/Structural



Repetition/Learning
Stakes
Anonymity
Communication
Entitlement

Demographic Variables

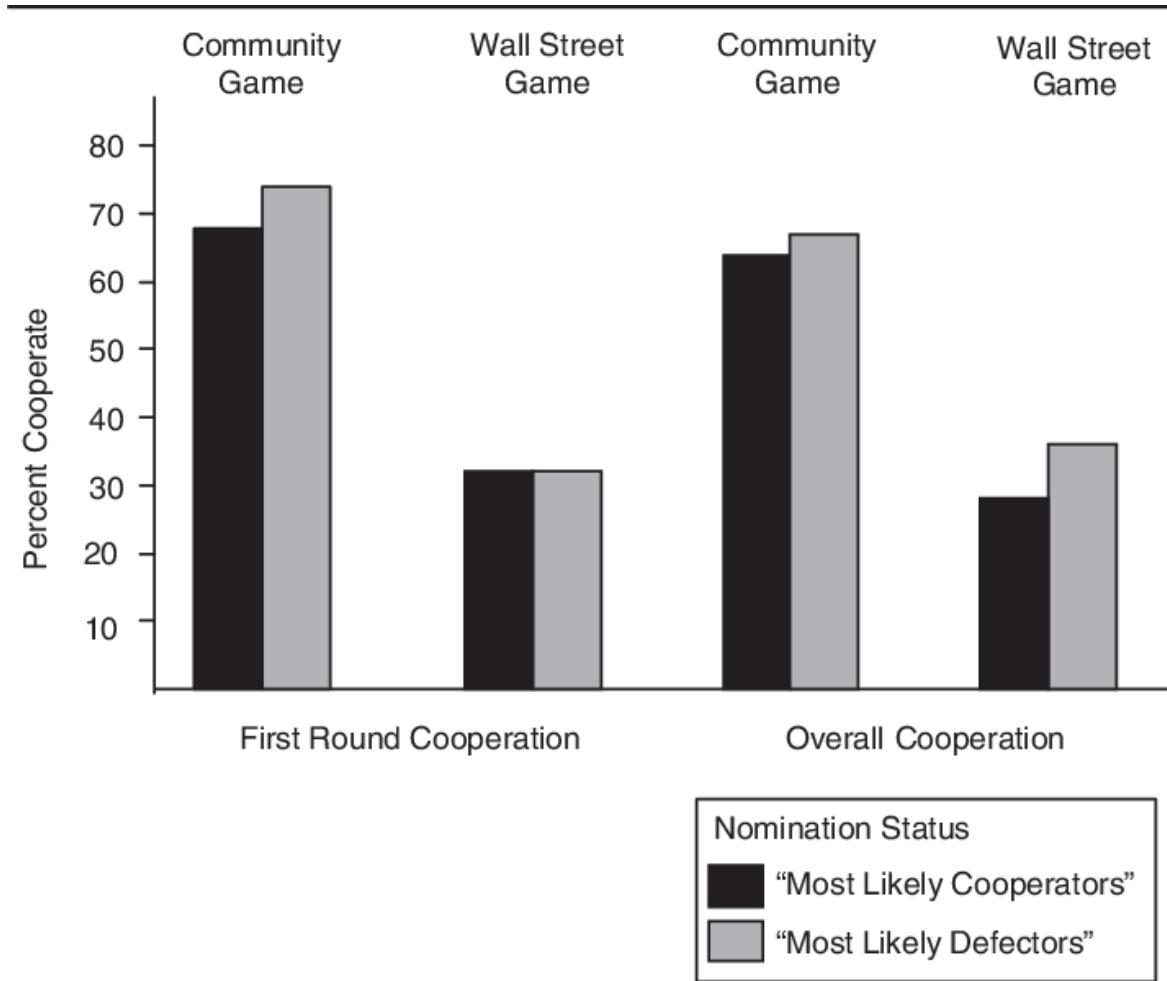


Gender
Age
Academic major
Culture
Wealth

Fun Fact 1: Reframing Prisoner's Dilemma

		Player 2' s Choice	
		Cooperate	Defect
Player 1's Choice	Cooperate	\$3, \$3	\$0, \$8
	Defect	\$8, \$0	\$1, \$1

Community Game VS. Wall Street Game



Liberman, Samuels, & Ross (2002). The Name of the Game: Predictive Power of Reputations versus Situational Labels in Determining Prisoner's Dilemma Game Moves

Fun Fact 2: Mimicry & Coordination



Wiltermuth & Heath (2008). *Synchrony and Cooperation*.
Psychological Science 20(1):1-5
DOI:10.1111/j.1467-9280.2008.02253.x

Mean choice in the “weak link coordination game” as a function of prior synchronous movement (or not)

