

ECON 482: Experimental Economics- REVISED FEB. 4
NOTE EXAM TIME, GRADING POLICY, AND SUGGESTIONS ON WRITING STYLE

Spring 2001, TTH 11:00 - 12:15 in Rouss B22

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office hours: TTH 9:45 - 10:45 in Rouss 119, and by appointment

text: *Experimental Economics*, by D. Davis and C. Holt, Princeton University Press, 1993, to be supplemented with reading materials that you will download off of the web. The *Y2K Bibliography of Experimental Economics* can be found on my web page. To search for journal articles on line, go to the Economics Department home page and click on Resources. Dates vary, for example JSTOR (<http://www.jstor.org/cgi-bin/jstor/listjournal>) generally only has pre-1995 articles. Many people keep their papers on personal home pages, just search under their names.

This course provides an introduction to the use of laboratory experiments in economics. Such experiments are conducted by bringing subjects (usually students) to a room and reading instructions that explain how earnings will depend on decisions made in the experiment. For example, an experiment may involve some subjects acting as "sellers" and others acting as "buyers". A seller with a "unit" that costs \$1.00 would be allowed to post a price above \$1.00 and to earn the difference between price and cost if another subject decides to buy at the posted price. Participants are financially motivated in the sense that all earnings are paid in cash. Experiments have been used to study issues such as how the rules of trade affect price levels and market efficiency. For example, experimental data played a major role in the FCC decision to auction geographic licenses for wireless communications simultaneously rather than sequentially. Experiments have also been used to study voting behavior, e.g., how the "agenda" of a committee meeting affects the committee decisions. Many issues in economics and finance depend on uncertainty in subtle ways, and the ability to control information differences makes the laboratory an ideal place to study stock market bubbles and crashes, the effects of insider information, etc. We will discuss experiments that are motivated by a wide range of issues in industrial organization, finance, labor economics, public economics, game theory, and strategic decision making under uncertainty. Consequently, this material will provide a new prospective on many topics that you may encounter in other courses.

You are expected to attend class and keep up with the reading. Unless otherwise indicated, all reading assignments are in the Davis/Holt book, and all written assignments are to be done individually. You will have to make at least one short class presentation during the semester. There will an exam (40%), and five short 3-page article summaries (50%), and class participation (10% subjective). The paper summaries are due on the Thursday (beginning of class) of the week in which the paper is listed, with a one-notch penalty for each day that the summary is late (i.e. B+ to B). The paper summaries must be between 2.5 and 3.0 pages in length, double spaced with 1 inch margins and a font of about 11-12 points.

Each short paper should contain a well written, structured summary of the paper, followed by your own personal evaluations or suggestions. Part of the grade will be based on writing style. Final exam date: Friday May 4 at 9am in B22, and it will involve evaluation of a paper that you will have to read.

Comments on writing (this *is* a first draft):

please avoid cliches like "real world"

care with possessives singular and plural: e.g. player's vs. players'

care with affect (generally a verb, or emotion), and effect (the result)

no need to quote a paper directly unless it is colorful, controversial, or cute

use short direct sentences

paragraphs should have a coherent main idea, with lead and conclusion sentences used carefully

the main ideas of paragraphs should fit together in a coherent sequence to tell a story or make a point

academic style, not too formal and archaic, and not too colloquial or conversational, with an occasional element of surprise

citations: no need to give title of book or article, but do give pages for direct quotes: Davis and Holt (1993, p.288)

references; list any reference you cite at the end, use the Davis and Holt end of chapter format or something similar (e.g. American Economic Review)

completeness: it is better to explain concepts at least a little rather than refer to things in the paper like "option A"

singular plural errors, be careful, it helps to read it out loud one last time "data are" not "data is"

reading aloud also helps you spot awkward phrases and sentences (with perhaps too many ideas)

avoid unnecessary repetition of words, phrases, and sentence structures

pace: try to keep a steady pace, without belaboring obvious points and then jumping into hyperspace with a complicated argument

verb tenses: try not to change too much, this is subtle, recent findings should probably not be summarized in the past tense "the authors conclude"

use the right words, try to be precise, use parallel structures when possible

try to write around the use of "he" or "she"

avoid abbreviations, this is not the Navy

I prefer not to use research as a verb, e.g. they researched the effects

finish with a spell check!!

content:

Please summarize the main points of the paper clearly, think of it as if you are writing for a journal editor who knows something about the field but has not read this particular paper. Say what is in it, what is good, and what can be improved or eliminated: the good, the bad, and the ugly

try to support key arguments with cites to book or readings or data from exp. A good idea is to read the paper and then read the chapter to see if it suggests any other perspectives that you can incorporate (thanks Jenna)

be *critical* when you can support your arguments,
just because its published doesn't mean it is good
but give authors credit for clever insights

try to organize your summary and critical discussion so that it fits together, i.e. spend more time summarizing aspects that you will discuss critically later

authors hate to have commentators suggest experiments that could have been done, since there are generally lots of possible directions that can be taken, so justify proposed extensions carefully on the basis of what needs to be learned or what procedural problems need to be fixed

some things to check (but no need to mention them all in your commentary):

are the conclusions really justified by the data and analysis?

is there enough data?

were the procedures carefully reported (e.g. instructions) in a manner that permits replication

were financial incentives appropriate?

could the main experimental results be due to artifacts of the procedures, e.g. order of presentation?

is the context given relevant to some economic issue, but not too suggestive of how to behave?

is the relevant literature well covered and explained?

is the paper too long and rambling, are there too many graphs and tables?

Assignments

- Jan 23-25 Methodology: Davis and Holt Chapter 1, pp.1-45
and the Ortmann and Hertwig paper that is forthcoming in *Brain and Behavioral Science*: "Experimental Practices in Economics; A Methodological Challenge for Psychologists" to be distributed, with individual presentations based on the "Commentaries" received from a group of 30 psychologists and economists.
- Jan 30-Feb.1 Individual Choice and Risk Aversion: Davis and Holt Chapter 2, pp. 67-90,
and either "Risk Aversion and Incentive Effects" Holt and Laury (2000)
<http://www.people.virginia.edu/~cah2k/highpay.pdf>
or "Further Reflections on Prospect Theory" Holt and Laury (2000) .../reflect.pdf
- Feb 6-8 Games and Strategic Behavior: Chapter 2, pp. 90-110
and "Ten Little Treasures of Game Theory and Ten Intuitive Contradictions" up to section p.19 C. Holt and J. Goeree, forthcoming (2001) *American Economic Review*
<http://www.people.virginia.edu/~cah2k/treasure.pdf>
or Van Huyck, Battalio, and Biel (1990) "Tacit Coordination Games, Strategic Uncertainty, and Coordination Failure" *American Economic Review*, March, 234-248. (its in JSTOR)
- Feb 13-15 Double Auction Markets Davis and Holt, Chapter 3 (to p. 159)
Davis and Williams (1991) "The Hayck Hypothesis in Experimental Auctions: Institutional Effects and Market Power" *Economic Inquiry*, 29, 261-274. (try JSTOR)
- Feb. 20 Posted Offer Markets: Chapter 4 (to p. 204)
and Fehr, Kirschsteiger, and Riedle (1993) "Does Fairness Prevent Market Clearing? An Experimental Investigation" *Quarterly Journal of Economics*, 1993, 437-459. (try JSTOR)
- Feb. 22 NO CLASS
- Feb. 27, Mar. 1, discussion of Cummings, Holt, and Laury (2001) "Georgia Irrigation Reduction Auction" on my webpage as /water.pdf.
- Mar. 6-8 Bargaining: Chapter 5 to p. 275, pp. 19-21 in "Ten Little Treasures..."
and Jean Ensminger's (2000) "Market Integration and Fairness: Evidence from Ultimatum, Dictator, and Public Goods Experiments in East Africa" which can be found on my home page under /bush.pdf
or Harbaugh, Krause, and Liday (2000) "Children's Bargaining Behavior: Differences by Age, Gender, and Height"
<http://harbaugh.uoregon.edu/papers/Kid%20bargaining.pdf>
- Mar. 13-15 Break
- Mar. 20-22 Statistical Discrimination (TBA, work in progress)

Mar. 27-29 Auctions: Chapter 5 275-305, pp. 21-24 in "Ten Little Treasures..."
and Lucking-Reiley (2001) "Experimental Evidence on Endogenous Entry of Bidders
in Internet Auctions"
<http://www.vanderbilt.edu/econ/reiley/papers/EndogenousEntry.pdf>
or " Lucking-Reiley and Katar (2000): "Public versus Secret Reserve Prices in eBay
Auctions: Results from a Pokemon Field Experiment" at:.. /SecretReserves.pdf

Apr. 3-5 Public Goods and Voting: Chapter 6 (except 6.5),
and Krause and Harbaugh (2000) "Children's Contributions in Public Good
Experiments; The Development of Altruistic and Free-Riding Behaviors" *Economic
Inquiry*, January 2000.
<http://harbaugh.uoregon.edu/papers\Children's%20contributions.pdf>

Apr. 10-12 TBA

Apr. 17-19 Information Chapter 7 (to p. 306) and p. 477-482 from Chapter 8

Apr. 24-26 Asset Markets: Chapter 7 p. 406-426 and Chapter 3 162-168
and Van Boening, Williams and Lamaster (1993) "Price Bubbles and Crashes in
Experimental Call Markets" *Economics Letters*, 41, 179-185.

May 14 9-12am Final Exam