
ECON3060

Experimental Economics

Overview

This course introduces students to the use of laboratory experiments in economics. Along with being introduced to the main subject areas where experiments have been used, students will also gain an understanding of the basic methods of experimental economics.

Goals

Experimental economics is concerned with using laboratory experiments to address theoretical and policy issues in economics. This course will introduce students to the experimental method in economics. The aim is to expose students to the major subjects areas where the method has been applied. In the process of doing so, students will also learn about the advantages and disadvantages of the method, and some key issues in experimental design.

Requirements

Each lecture begins with an experiment. You are strongly encouraged to participate in this experiment, since the rest of the lecture will discuss topics related to this experiment. Participation in these sessions contributes to 10% of your final mark. For each session you miss you will lose 1 mark (i.e. 1%). You are allowed to miss one session without penalty.

Semester One 2013
Thursdays: 12.00-15.00

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Materials

There is no required textbook for the course, however you may find Holt (2007) "Markets, Games, and Strategic Behaviour" useful. Most lectures will be based on academic articles, listed at the end of this Syllabus. The required articles are highlighted, while you are encouraged to read them all.

Milestones

29 March 2013

Submission of the Research Idea.

20 May 2013

Submission of the Research Paper.

Examination period

Final Exam

Evaluation

Lab Participation 10%
Essay proposal 10%
Research paper 30%
Final Exam 50%

Week	Date	Topic
1	28 Feb	Introduction to Experimental Economics
2	7 Mar	Incentives
3	14 Mar	Library Session
4	21 Mar	Bounded Rationality
5	28 Mar	Risk and Decision Making
6	11 Apr	Designing an Experiment
7	18 Apr	Bargaining and Fairness
8	2 May	Asset Markets
9	9 May	Field Experiments
10	16 May	Auctions
11	23 May	Public Goods
12	30 May	Review

Guidelines for the Research paper

General

The research paper is a proposal for an original experiment. The paper will have an introduction (which consists of a short literature review and the research question), discussion of alternative theories, design of the proposed experiment and a conclusion (discussion of expected results and the potential contribution of the paper to the literature).

Research Idea

You should submit a one-page description of your proposed research question for your research paper. Should include the following items:

- 1- essay title
- 2- a brief description of the specific research question you will be addressing in your paper
- 3- Short description of what the experiment design will look like
- 4- a brief discussion of recent literature including references to at least FOUR journal articles on which your paper will be based.

The research paper should:

- propose an original and specific research question
- demonstrate a good understanding of the relevant literature
- present clearly the theories/hypotheses that the experiment intends to distinguish
- explain in sufficient detail the design of the experiment
- adhere with formatting and style requirements (maximum 5000 words, double spacing, font size of 12, single sided)
- use Harvard referencing style
- use correct spelling and grammar
- be submitted by the deadline

Coming up with an interesting and original research question is not an easy task. You might have good ideas but you need to make sure that the idea is:

- Experimentally testable
- There is an economic literature that you can relate to
- And someone else haven't thought about the same thing before (i.e. already published)

Creativity is required in both coming up with an interesting question and also in designing an experiment. Although you have to take into account the methodological issues that are discussed in the course there is no single way of running an experiment.

You have to conduct an extensive literature review on the topic that you are interested in to be able to find out where in the literature your idea fits in and whether your idea is original.

You are advised to organize your paper in a clear structured manner. Below I describe one way of organizing your paper. You might consider a different approach if you think you will achieve the same goals.

Introduction (25%)

The introduction of the paper should include the following:

- Clearly stated research question (originality of the research question is of utmost importance)
- Motivation for why this research question is interesting, important and relevant
- Clearly identified theories that might answer the question
- Specific hypothesis to be tested
- A summary of your experimental design
- Relevant experimental/empirical/theoretical literature.

Theoretical background (15%)

This section should satisfy the following:

- Presents specific hypotheses that are clearly linked to the research question.
- Motivates the hypotheses using theories/ideas from the literature.
- Discusses alternative theories that go against the presented hypotheses.
- The section is well structured and well written.

Experimental Design (25%)

Clearly shows how the experiment is able to test the presented hypotheses. Explains in sufficient detail the design of the experiment. The section is well structured and well written. Creativity in design is an important criterion.

Discussion/Conclusion (10%)

Adequately discusses the expected results and the potential contribution of the paper to the literature. The section is well structured and well written.

Other criteria:

Overall (10%)

The paper is original and addresses an interesting and important question. The general structure is coherent and the paper is well written overall.

Formatting (5%)

Adheres with formatting and style requirements (maximum 5000 words, double spacing, font size of 12).

Spelling and Grammar (5%)

Uses correct spelling and grammar throughout the paper.

Referencing (5%)

Avoids plagiarism. Properly uses the Harvard referencing style. Uses quote and paraphrase adequately. Clearly distinguishes original work from referenced work

Reading List:

Markets, Games, and Strategic Behavior by Charles Holt, Pearson Education Inc, 2007.

Week 1: Introduction

Friedman Sunder (Chapter 1); Davis and Holt (Chapter 1) (recommended)

Week 2: Incentives

Gneezy, Uri, Stephan Meier, and Pedro Rey-Biel. 2011. "When and Why Incentives (Don't) Work to Modify Behavior." *Journal of Economic Perspectives*, 25(4): 191–210. (recommended)

Fehr, Ernst, and Bettina Rockenbach. "Detrimental Effects of Sanctions on Human Altruism." *Nature* 422, (2003): 137-140.

Fehr, Ernst, and Simon Gächter. "Cooperation and Punishment in Public Goods Experiments." *American Economic Review* 90, no. 4 (2000): 980-994.

Gneezy, Uri, and Aldo Rustichini. "A Fine is a Price." *Journal of Legal Studies* 29, no. 1 (2000): 1-17.

Charness, G. & Gneezy, U. 2009. "Incentives to Exercise," *Econometrica*, Econometric Society, vol. 77(3), pages 909-931, 05

Week 3: Library Session

No required reading but you may find the resources here useful: http://www.bus.lsu.edu/hill/writing_economics_papers.htm

Week 4: Bounded Rationality

Ignacio Palacios-Huerta & Oscar Volij, 2009. "Field Centipedes," *American Economic Review*, American Economic Association, vol. 99(4), pages 1619-35, September.

Nagel, Rosemarie, 1995. "Unraveling in Guessing Games: An Experimental Study," *American Economic Review*, American Economic Association, vol. 85(5), pages 1313-26, December.

Jacob K. Goeree & Charles A. Holt, 2001. "Ten Little Treasures of Game Theory and Ten Intuitive Contradictions," *American Economic Review*, American Economic Association, vol. 91(5), pages 1402-1422, December. (recommended)

Week 5: Risk and Decision Making

Kahneman, Daniel & Tversky, Amos, 1979. "Prospect Theory: An Analysis of Decision under Risk," *Econometrica*, Econometric Society, vol. 47(2), pages 263-91, March.

Charles A. Holt & Susan K. Laury, 2002. "Risk Aversion and Incentive Effects," *American Economic Review*, American Economic Association, vol. 92(5), pages 1644-1655, December.

Gneezy, U., and J. Potters "An Experiment on Risk Taking and Evaluation Periods," *Quarterly Journal of Economics*, CXII, May 1997, 631-645. (recommended)

Week 6: Designing an Experiment

Chapter 1 in Davis, Douglas D., and Holt, Charles A. (1993). *Experimental economics*. Princeton, N.J.: Princeton University Press. - available online via the library

Chapters 3&4 Friedman, Daniel, and Cassar, Alessandra (2004). *Economics lab: an intensive course in experimental economics*. London ; New York: Routledge. - available online via the library (recommended)

Hertwig, R., & Ortmann, O. (2001). Experimental practices in economics: a methodological challenge for psychologists? *Behavioral and Brain Sciences*, 24, 383– 451.

Week 7: Bargaining and Fairness

Babcock, Linda & Loewenstein, George, 1997. "Explaining Bargaining Impasse: The Role of Self-Serving Biases," *Journal of Economic Perspectives*, American Economic Association, vol. 11(1), pages 109-26, Winter.

Ernst Fehr & Klaus M. Schmidt, 1999. "A Theory Of Fairness, Competition, And Cooperation," *The Quarterly Journal of Economics*, MIT Press, vol. 114(3), pages 817-868, August. (recommended)

Steven D. Levitt & John A. List, 2007. "What Do Laboratory Experiments Measuring Social Preferences Reveal About the Real World?," *Journal of Economic Perspectives*, American Economic Association, vol. 21(2), page 153-174, Spring.

Week 8: Asset Markets

Smith, Vernon L & Suchanek, Gerry L & Williams, Arlington W, 1988. "Bubbles, Crashes, and Endogenous Expectations in Experimental Spot Asset Markets," *Econometrica*, Econometric Society, vol. 56(5), pages 1119-51, September.

Ernan Haruvy & Yaron Lahav & Charles N. Noussair, 2007. "Traders' Expectations in Asset Markets: Experimental Evidence," *American Economic Review*, American Economic Association, vol. 97(5), pages 1901-1920, December. (recommended)

Week 9: Field Experiments

Thaler, R.H. & Benartzi, S., 2004. Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving. *Journal of Political Economy*, 112(S1), p.S164-S187.

Gneezy, U. & List, J.A., 2006. Putting Behavioral Economics to Work: Testing for Gift Exchange in Labor Markets Using Field Experiments. *Econometrica*, 74(5), p.1365-1384. (recommended)

Banerjee, Abhijit, and Esther Duflo. 2006. "Addressing Absence." *Journal of Economic Perspectives*, 20(1): 117–132.

Week 10: Auctions

Kagel, J.H. & Levin, D., 1986. The winner's curse and public information in common value auctions. *American Economic Review*, 76(5), p.894-920.

Filiz-Ozbay, Emel, and Erkut Y. Ozbay 2007. "Auctions with Anticipated Regret: Theory and Experiment." *American Economic Review*, 97(4): 1407–1418. (recommended)

Week 11: Public Goods

Fischbacher, Urs, and Simon Gächter. 2010. "Social Preferences, Beliefs, and the Dynamics of Free Riding in Public Goods Experiments." *American Economic Review*, 100(1): 541–56. (recommended)

Matthias Sutter & Stefan Haigner & Martin G. Kocher, 2010. "Choosing the Carrot or the Stick? Endogenous Institutional Choice in Social Dilemma Situations," *Review of Economic Studies*, Wiley Blackwell, vol. 77(4), pages 1540-1566, October.

Ernst Fehr & Simon Gächter, 2000. "Cooperation and Punishment in Public Goods Experiments," *American Economic Review*, American Economic Association, vol. 90(4), pages 980-994, September.