

Psy 101 Chapter 2 notes
Prof Camerer
4/13/03

The point of these games:

To measure dimensions of social preference, and how those preferences vary across culture, demographics, etc.

Dictator game:

Responder cannot reject offer (pure allocation by the dictator).

This is good for measuring altruism/envy) and for telling whether fair offers in ultimatum are due to altruism or to strategic fairness (fear of rejection). If offers are exactly the same then it is due to pure altruism.

Basics: Around 10-20% offers on average. *Highly* variable though (a “weak” situation; this is *good* if you want to measure variation).

Ultimatum games:

Demographics & culture:

Many studies on gender, etc. Not much consistent or large. Interesting effect of beauty (women give average \$5.07 to "cute guys"), weak effect of testosterone (high-T males are more likely to reject, but also more likely to offer evenly, very sketchy single study tho so take w/ a grain of salt)

No differences in Japan, US. Slightly more even-minded in Yugoslavia, less in Israel.

Huge effect: Machiguenga farmers in Peru. "Potlatch" tribe in New Guinea (offer **more** than half, rejection **rises** with offer!? Why?). Correlated with market participation (trading with strangers either requires or instills sharing norms).

Tentative effects of children (young <4 go from self-interest through pure equality through pure equity phases as they get older).

Autistic adults often offer zero (25% do)

Methodological

Stakes (weak effects, thoroughly explored)

Repetition (very weak learning effect—satiating or learning?)

Strategy method vs specific-offer method (modest increase in p(rejection) from SM?)

Descriptive variables:

Why should labelling strategies matter?

Different fairness norms in different contexts?

Effects perceived utility of different actions?

Examples: Buyer-seller framing reduces offers about 10%

Structural variables:

Identity and communication.

One-way ID makes little difference in dictator

One-way ID plus talking makes a lot of difference-- mean dictator allocation 52%, std deviation goes up (16% give more than 80%!)-- character judgment?

Entitlement: Winning right to be proposer by success in trivia lowers offers

Competitive pressure: Top earning proposers get to play again with a different person. Lowers offers **and** (key) also makes low offers more acceptable-- Force of competition "justifies" unfairness

Proposer competition—if 2 or more proposers, tend to compete and give all the surplus to the Responder

Information: If responders aren't sure how much Proposers get, they reject less often. Proposers exploit this when possible (e.g. pie size \$10 or \$20, offer \$5). Responders reject more often when Proposer share is high.

Blount: Reject much less often when offers are from a computer. Unfairness, not unevenness.

Neural fMRI evidence: Responder reactions to unfair (30-70) offers, relative to fair (50-50) gives additional activation in prefrontal cortex (PFC), anterior cingulate (ACC, conflict resolver), and insula ("disgust"). Measured disgust predicts rejections rather reliably—"don't ask the person, ask the brain!"

Trust game:

Dictator game in which the amount being allocated depends on player 1's "investment" E.g. put X (from $[0,10]$) in an envelope. It triples to $3X$. Trustee returns Y (from $[0,3X]$). X measures trust. Y (or $Y/3X$) measures degree of trustworthiness.

Trust is "investment with moral hazard". No legal protection, threat of violence, etc.

Trust lubricates the economy (linked to differences in nat' GDP growth, "social capital")

Earliest result (Berg Dickhaut McCabe 1995): Invest 52%, returned 47%.

Replicated in Bulgaria, etc. Less trust & trustworthy in Kenya (Orma data)

Evidence of racial preference (blacks/Asian less trusted, Eckel study), "only-child effect" (only children are less trustworthy)

Slight evidence that women are more trustworthy. Minor racial differences (Korea, Japan, US, China)

"Personal" trust (Y goes back to trustor) much stronger than "indirect" (trustor1 gives to trustee1, who pays back trustor2, who gives to trustee2, who pays back trustor1) and "societal" (no indirect connection between trustor and trustee)

"Gift exchange" in labor markets

Special kind of trust in which firms "prepay" wages. Workers choose effort which is costly to workers and valuable to firms. Firms must trust workers to work hard.

Firms earn $(120 - \text{wage}) * e$, workers earn $\text{wage} - c(e)$ where $e \in [.1, 1]$ (increments of .1) and $c(e)$ ranges from 1 to 18. Excess supply of workers (10 workers, 8 firms)

Competitive equilibrium: Pay 2, workers choose $e^*=0$, firms earn 11.8, workers earn 1, total surplus 12.8

Trusting outcome: If workers choose $e^*=1$, firms earn 120-wage, workers earn wage-18, total surplus 102. HUGE gain from trust in this case.

Regularities: Firms pay around 60, no deterioration over time. Workers choose e^* around .5, and effort increases in wage (positive reciprocity).

Auction markets with workers posting wages: Firms *turn down* low wage offers and voluntarily pay more!

Theories:

“Intentionless” (just transform utilities at terminal nodes)

Inequality-aversion (e.g. Fehr-Schmidt), guilt & envy

Me-min-us (Rawlsitarian); own, min, and sum

Problem: Intentions seem to matter (e.g. unfair vs uneven)

Goal: Same functions (and parameters) can explain *very different* behavior across games (e.g. 1 vs 2 proposer ultimatum, effect of information)

“Reciprocal” (Rabin)

Define “kindness” of another player. Reciprocate kindness w/ kindness,

Meanness w/ meanness

Evolutionary/unnatural habitat

Evolution shaped us to expect (or learn) repeated play. People “unconsciously” mistake one-shot and repeated games.

How to falsify???