Other Regarding Preferences

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Behavioral Economics

Spring 2017

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Other regarding (or social) preferences

- In the standard economic model, people are selfish
- Care only about their own consumption
- Means that they do exhibit any
  - Altruism
  - Sense of fairness
  - Reciprocity/Spite
  - Envy
  - Aversion to inequality
- This seems like a very restrictive assumption

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Some Thought Experiments

- Would you pay for your kids to go to college?
- If you had $100 to distribute at an orphanage with 10 orphans, would you prefer that one orphan got $100 or all 10 got $10?
- Would you quit your job if you found out that the guy next to you was being paid 20% more for the same job?
- Would you pay money to punish someone who had swindled you out of your life savings, even if you would not recover any of that money?

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These are Important Questions

- How do we support co-operation in society?
  - A group that fight together are more likely to repel invader
  - But, if everyone else is fighting, you would prefer to stay at home
  - How do we have societies that support costly co-operation?
  - Easier if people have a sense of fairness, and are prepared to punish cheaters
- If I am a firm, how should I structure the way I pay my workers?
  - People may judge their pay relative to others
- If my happiness depends on my relative position in society, how will an economy evolve
  - Keeping up with the Jones
  - Is an unequal society an unhappy society?

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Social Preferences vs Repeated Games

- One thing to bear in mind: selfish people may look like they have social preferences in repeated settings
  - I may pay for my kids to go to college because I think that they will support me in my old age
  - I may treat you nicely today so that you will treat me nicely tomorrow
  - I may punish someone who cheats me today in order to prevent people cheating people tomorrow
- Important to disentangle this from true 'social preferences'

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Two Workhorses in the Study of Social Preferences

- Ultimatum Game

- Dictator Game

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The Ultimatum Game

- Sequential game with two players
  - Player 1 proposes how to split $7 dollars themselves and player 2
  - Player 2 can either accept the split, or reject, in which case both parties get nothing
- Subgame perfect Nash Equilibrium
  - Player 2 accepts any offer that gives them a strictly positive amount
  - Player 1 offer $7-e

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So What Happens?

- Experimental aside:
- Player 1's strategy is simple
  - Just has to propose a split
- Player 2's strategy is complicated
  - Mapping from each possible offer from player 1 to a decision {accept, reject}
- We would like to observe strategy, not just their response to player 1's offer.
- We use the strategy method
  - Ask player 2 to report what they would do for each offer of player 1

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So What Happens [Guth et al 1982]?

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So What Happens?

1. Player 1 offers more that 7-e
   - This could be explained by selfish preferences
     - If they offer 7-e, will get rejected
   - Or by a preference for fairness
2. Player 2 will reject positive offers
   - Cannot be explained by selfish preferences
   - Or by pure altruism
   - Need something else

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Your Data
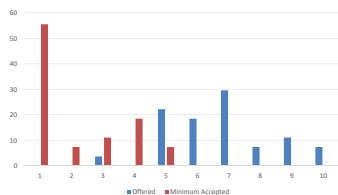
- Class Mean: Keep $6.74
- Class Mean: Accept $2.00
- Class Acceptance Rate: 7%

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Selected Participants

- Person A
  - Peter Kalicki
- Person B
  - Beenish Irshad

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Robustness Tests (Oosterbeek et al 2004)

Table 1: Descriptive statistics

Robustness Tests (Oosterbeek et al 2004)

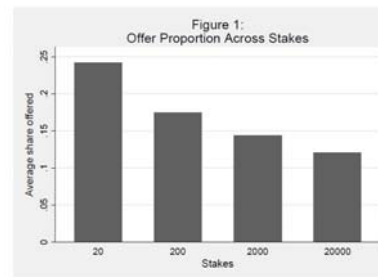Table 2: Descriptive statistics by country

Robustness Tests (Henrich et al 2005)
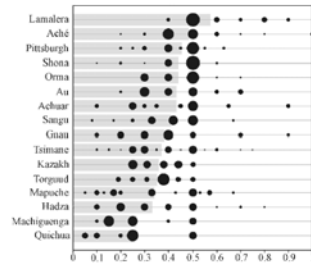
- Small scale, isolated societies
- Graph shows distribution of offers in the ultimatum game

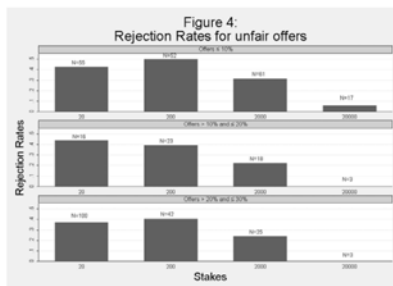## Robustness Tests (Andersen et al. 2011)

Figure 1:
Offer Proportion Across Stakes

- 20 Rupee=1.6 hrs work
- 20,000 Rupee 1600 hrs work

Robustness Tests (Andersen et al. 2011)

Figure 4:
Rejection Rates for unfair offers

- Rejection rates fall to near zero when pie is a year's wages

Dictator Game

- How do we tell whether player 1 is worried about rejection, or has social preferences?
- Take away the action of player 2
- This is the dictator game: player 1 gets to split the pie
- Player 2 get no say
- In most experiments, player 1 still sends significant amount
- But can be affected by framing, anonymity, etc.