

Inequality Aversion vs Fairness

Behavioral Economics
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Experiment 1: Nelson 2002

- 2 versions of the ultimatum game
 - Standard (\$20 pie)
 - Truncated: max offer \$4
- All players played both sides of both games
- Behavior of responders extracted using strategy method

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Experiment 1: Nelson 2002

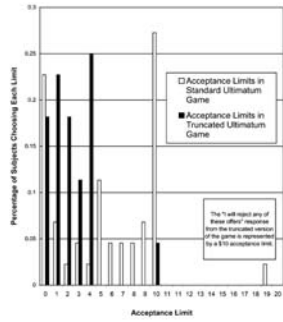


Fig. 1. Cross-treatment acceptance limits.

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Experiment 2: Sutter 2007

Table 1
The four mini-ultimatum games

Label	(Proposer/responder)	
	Default	Alternative
Game [8/10]	8/2	10/0
Game [8/8]	8/2	8/2
Game [8/5]	8/2	5/5
Game [8/2]	8/2	2/8

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Experiment 2: Sutter 2007

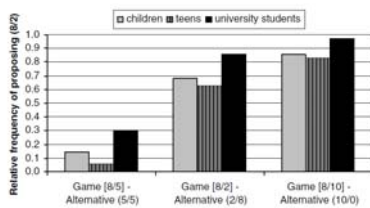
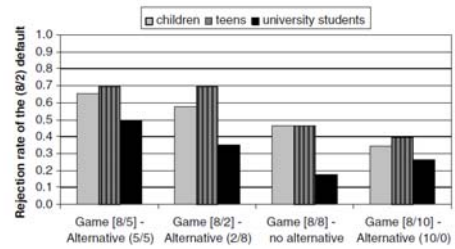


Fig. 1. Relative frequency of proposing the default allocation (8/2).

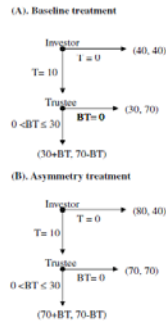
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Experiment 2: Sutter 2007



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Experiment 3: Xiao et al [2010]



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Experiment 3: Xiao et al [2010]

Treatment	Motivation	Trustee's return(€) if receives 30€
Baseline	Payoff maximization	0
	Inequality aversion	(0, 20)
	Reciprocity	(0, 30)
Asymmetry	Payoff maximization	0
	Inequality aversion	0
	Reciprocity	(0, 30)

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Experiment 3: Xiao et al [2010]

Treatment	Motivation	# of Trustees	% of Trustees
Baseline	Payoff Maximization	7	31.82
	Inequality Aversion	15	68.18
	Reciprocity	15	68.18
Asymmetry	Payoff Maximization	14	60.87
	Inequality Aversion	14	60.87
	Reciprocity	9	39.13

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Summary

- Both inequality aversion and reciprocity seem to be important in explaining behavior
- Nelson [2002] and Sutter [2007] show that recipient behavior in the ultimatum game is affected by what the proposer *could* have offered
- Xiao et al [2010] show that subjects are more likely to return money in the trust game if it reduces inequality, holding reciprocity constant

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Papers to Read

- Nelson, William , (2002), [Equity or intention: it is the thought that counts](#), *Journal of Economic Behavior & Organization*, 48, issue 4, p. 423-430.
- Sutter, Matthias, 2007. "Outcomes versus intentions: On the nature of fair behavior and its development with age," *Journal of Economic Psychology*, Elsevier, vol. 28(1), pages 69-78, January.
- Xiao, Erte & Bicchieri, Cristina, 2010. "When equality trumps reciprocity," *Journal of Economic Psychology*, Elsevier, vol. 31(3), pages 456-470, June.
- Gary Charness & Matthew Rabin, 2002. "Understanding Social Preferences With Simple Tests," *The Quarterly Journal of Economics*, MIT Press, vol. 117(3), pages 817-869, August.
- Halevy, Yoram & Peters, Michael, 2007. "Other Regarding Preferences: Outcomes, Intentions, or Interdependence," *Micro Theory Working Papers* peters-07-03-31-11-46-48, Microeconomics.ca Website, revised 24 Jun 2009.

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