

# Mainz Workshop in Behavioral Economics

29 August 2012

## Program and Abstracts

08.20 – 08.30          Welcome

08.30 – 09.15

Keynote Jordi Brandts: *The Impact of Advice on Selection into Competition*

09.30 – 11.00

### Session A

Cecilia Chen: *Broken Promises and Hidden Partnerships*

Abstract: Previous research shows unenforceable promises can promote both trust and reciprocity. While this can benefit existing exchange, in dynamic environments promises might hinder one's willingness to form new trust relationships, even when doing so would be efficient. This arises in both business and social contexts, including industry non-compete agreements and personal relationship commitment decisions. Despite its practical importance, we are aware of no previous experimental research that informs behavior when facing tension between keeping a previous promise and taking advantage of a new trust opportunity. Here we take a step in that direction. We report data from an experiment using three person trust games with a hidden trust action. In our game, the second mover reciprocates the first mover's trust by not trusting the third mover, and players can make non-binding promises to each other prior to making decisions. We find people are willing to break promises to pursue new trust relationships, but only when the party involved in the new trust makes a promise to cooperate. When promises encouraging new trust are not made, we find that people are overwhelmingly likely to keep old promises and avoid entering new and potentially beneficial hidden trust relationships. Our data provide novel evidence on the role of promises in affecting economic outcomes, and shed new light on the contexts under which promises are likely to be broken.

Joel van der Weele: *When Ignorance Is Innocence: On Information Avoidance in Moral Dilemmas*

Avoiding information about adverse welfare consequences of self-interested decisions, or 'strategic ignorance', is an important source of corruption, anti-social behavior and even atrocities. I show that the

signaling model by Benabou and Tirole (2006) can explain strategic ignorance as the equilibrium outcome of a trade-off between image concerns and material desires. The model accommodates the findings of existing experiments and predicts that strategic ignorance depends both on the cost of information and the payoffs of the subsequent moral dilemma. An experimental test of these predictions shows that ignorance decreases when helping others is cheap and potential harm to others is higher, and that some people are willing to pay to remain ignorant. The results provide clear evidence that people avoid 'inconvenient' facts.

Andreas Bernecker: *Do People Stick to Numbers or Policies? Disentangling Anchoring and Status Quo Bias Using CAPTCHA*

Two very robust observations in economics and psychology are that people make judgments that are biased towards initially presented values ("anchoring") and that people stick to the status quo choice or policy more frequently than predicted by standard theory ("status quo bias"). Often, these phenomena both affect preferences at the same time (or anchoring is even seen as one possible cause of status quo bias). However, it is of great importance to economists and politicians to know which of the two effects is more relevant, namely if people favor status quo choices or policies more for cognitive or for motivational reasons. Using a survey of a representative sample of the German population conducted within the German Internet Panel (GIP) with two applications (public spending on environmental protection and on the performing arts), I show how one can disentangle anchoring from status quo bias in people's policy preferences. First pretests indicate that my approach works and that status quo bias is caused to two thirds by motivational reasons and to one third by cognitive ones (anchoring). My final results might be of direct importance for researchers conducting economic surveys and experiments, but might also have implications for the political economy of reforms.

**Session B**

Yann Girard: *The Value of Competition*

This paper analyses individual preferences for competition and how these preferences depend on the degree of social connectedness to the opponent. An experimental design is introduced that allows distinguishing between preferences associated with competition, real effort and risk. In the basic treatment participants have to compete against an unknown competitor but in the following treatment some have to compete against a close friend (treatment group) while others have to compete against another unknown competitor (control group).

With this design we are able to analyze how social connectedness impacts the valuation for a competitive situation.

Florian Hett, Daniel Schunk, Yann Girard: *The Interrelationship of Social Networks and Individual Characteristics*

We employ a panel data set from a large-scale experiment with incoming bachelor students at JGU Mainz. In particular we elicit information on students' social networks and a wide array of socio-economic and behavioral attributes at two different points in time. In addition, we have information regarding a random group assignment procedure, which determines social connections among the participants. Using this data set we investigate (i) how social networks affect individual characteristics and (ii) how individual characteristics determine the shape of social networks and an individual's position within the network. To disentangle these correlations into two separate causal effects, we exploit the random nature of the group assignment procedure that represents an exogenous variation of an individual's social environment.

Daniela Rützler, Matthias Sutter, Loukas Balafoutas, Glenn Dutcher, Christiane Schwieren: *The Intergenerational Transmission of Competitive Behavior from Parents to Children*

We study how the willingness to enter a tournament is transmitted from parents to their children. It is important to understand how this preference is passed on from one generation to the next since this may determine future economic outcomes. To this end, we ran incentivized real-effort experiments during a university open day for families. Before performing a skill-based task, parents and their children individually had to indicate whether they preferred a piece rate or a tournament payment scheme where the pay for the tournament pay scheme was doubled. Children and parents were always in separate rooms. Our preliminary results point to a very gender-specific transmission mechanism between parents and their offspring: competitive fathers adversely affect their children's willingness to compete, while the competitive choices of mothers are positively related to the choices of their daughters, but not to those of their sons.

**11.00 – 11.30      Coffee Break**

11.30 – 12.15

Keynote Klaus Wälde: *Emotional Tension, Personality and Communication*

Everybody knows how it feels to be emotionally tense. Everybody is angry at least occasionally. One's personality determines whether one reacts to this by emotional outbursts or whether one manages to stay

calm. This paper presents a model of emotional tension and how it evolves over time. An individual chooses communication strategies to reduce tension. Embedded in optimal stopping theory, individuals can either smoothly talk or shout in some "uncontrolled way". We also analyse how communication behaviour affects the evolution of individuals' tension levels in a group where members affect each other emotionally. Some conclusions on how to avoid outburst cycles are drawn.

**12.15 – 13.30      Lunch Break**

13.30 – 14.15

Keynote Dan Houser: *Temptation at Work*

14.30 – 16.00

**Session A**

Katrin John: *The Role of Environment in the Development of Other-Regarding Preferences*

We describe other-regarding preferences elicited in Dictator, Ultimatum and Public Good Games for German children and adolescents aged 10 to 18. While most subjects exhibit either altruistic or social welfare preferences, strictly self-regarding individuals are rare.

Besides a distinct increase of pro-social behavior with age we find important environmental differences. Pupils in East Germany more frequently exhibit other-regarding behavior compared to pupils in West Germany. Moreover, secondary school pupils more often display social welfare preferences than grammar school children. Thus, besides a developmental aspect of the volatility in social preferences of children, environmental influences shape differences in their level.

Philipp C. Wichardt, Jan-Erik Lönnqvist, Jan Sprenger: *Judgement and Behaviour in the Prisoner's Dilemma: The Impact of Moral and Strategic Considerations*

How do people perceive a social dilemma such as the Prisoner's Dilemma if the problem is framed focusing entirely on monetary incentives – as commonly done in laboratory experiments? Focusing on the involved conflict between strategic and moral incentives, we designed a two-stage experiment to analyse both the subjects' judgement (Part 1) and their behaviour (Part 2) in such a setting. In Part 1, we elicited the subjects' preferences over the different outcomes in the Prisoner's Dilemma from three different perspectives (moral, strategic, overall). In Part 2, conducted some months later, we let them decide on actions in the respective context. The data show that: (a)

subjects can differentiate between moral and strategic incentives; (b) overall preferences are often a combination of moral and strategic preferences; (c) the subjects' expressed preferences over outcomes are closely aligned with specific personal values; (d) actual behaviour in the lab is primarily determined by the subjects' (pessimistic) first order beliefs. Moreover, the analysis suggests that while subjects have a more complex and, indeed, socially minded view on the incentive structure of the Prisoner's Dilemma, the common focus on monetary incentives and anonymity in economic lab experiments directs judgements and behaviour into a special and not necessarily realistic direction.

Leonie Gerhards: *Incentives for Motivated Agents - An Experiment with Employees from a Non-Profit Organization*

This paper studies the incentive effects of an organization's mission on agents' effort decisions in an artefactual field experiment. A unique subject pool of employees from a non-profit humanitarian organization participates in an adapted principal-agent experiment. Two treatments are implemented, which differ in the degree of the agent's mission match to his project.

For any given piece rate agents choose significantly higher efforts the more they are motivated by a mission. Furthermore, evidence for a motivational crowding-out effect of high monetary incentives is observed. Principals do not take advantage of the fact that they could economize on monetary incentives when interacting with a motivated agent. In fact, piece rate choices are increasing in their own mission match to their agent's projects.

**Session B**

Christopher Kops, Klaus Wälde: *Deciding, Fast and Slow - Between Reason and Intuition*

There is ample evidence that intuitive decisions are fast, but sometimes erroneous. Strong emotions that affect intuitive reasoning may accelerate and impair performance. The objective of this paper is to incorporate this phenomenon into a Bayesian decision model. We analyze the situation of a potential job change, where the new job provides unknown utility. It is common knowledge that this utility is either higher or lower than certain utility of the present job. A worker can directly accept or reject the offer trusting his intuitive judgment, or he can postpone the final decision in order to learn the true type of the new job. Learning is modeled as investing into a Poisson process with known arrival rate that reveals the true type upon the first jump. Our model is able to explain why individuals sometimes make fast decisions

solely based on their intuition, no matter how erroneous it may be, and why at other times similar decisions require thorough deliberation.

Jeroen van de Ven, Michèle Belot: *Buying Lies: The Effects of Interaction and Context on the Ability to Detect Deceit*

We study deception and the ability to detect deceit in a market with asymmetric information. In the experiment, buyers and sellers meet each other in successive brief face-to-face interactions. Sellers are privately informed about which one of two products is most advantageous for the buyer. The sellers make recommendations to the buyers, and have the option to deceive buyers when their incentives are not aligned. We systematically vary two characteristics of the market. First, we vary whether or not the buyer can interrogate the seller. Second, we change the context by varying the complexity of the product. In some treatments the two products are simply labeled as black or red, while in other treatments the products are descriptions of holiday packages showing a range of features. We find that sellers almost always make recommendations that are in their own best interest. Buyers are not able to detect deceit when they have no option to interrogate the seller, but are substantially more likely than chance to detect deceit when the interaction is longer, both when the product is simple and complex.

Alain Cohn, Michel André Maréchal: *Bad Boys: The Effect of Criminal Identity on Norm Violation*

Labeling and prisonization theory from sociology and criminology suggest that criminal identity plays a key role in the relapse of ex-prisoners. According to these views, imprisonment reinforces inmates' criminal identity which increases the likelihood of norm violating behavior after their release. Despite its importance, causal evidence on the effect of criminal identity on norm violating behavior is still lacking. We test this conjecture in an experiment with 182 prisoners from Switzerland's largest closed correctional facility. We randomly primed half of the prisoners with their criminal identity, while treating the others as the control group. Prisoners subsequently participated in an incentivized experiment, allowing us to unobtrusively measure their cheating behavior as a form of norm violation. Our results demonstrate that prisoners engage in norm violating behavior more frequently when their criminal identity is made more salient.

**16.00 – 16.30**

**Coffee Break**

16.30 – 18.00

## Session A

### Christian Koch: *Why do some People Trust, Cooperate and Punish Free-Riders While Others Do Not?*

Why do some people trust, cooperate and punish free-riders while others do not? Using an experimental design based on Konow and Earley (2008), I investigate a reason already proposed by Aristotele in his Nichomachean Ethics. Aristotle claims that a nexus between virtues and well-being exist and that enduring well-being cannot be achieved by hedonic pleasures and material affluence, but only by virtuous behavior. In this line of argument, the sophistication of personal and ethical maturity decides whether a person behaves virtuously or not. My experimental design examines two related questions. First, do people who behave more virtuously report on average higher well-being? Second, if the answer is affirmative, what is the underlying causal relationship? Preliminary results suggest that a nexus between well-being and virtues seems to exist and that a variable called psychological well-being is the primary cause of (short run) virtuous behavior and (long run) hedonic happiness

### Silvia Grätz: *Facing a Dilemma: Cooperative Behavior and Beauty*

In this paper we analyze the potential relationship between beauty and cooperative behavior. We combine field data from a television game show, in which contestants play a face-to-face prisoner's dilemma game in a high-stakes environment, with data from independent facial appearance ratings of these contestants. The main finding is that facial attractiveness triggers cooperative behavior. Although there is no substantial difference between facially attractive and unattractive contestants regarding the decision to cooperate, facing an attractive opponent increases cooperation significantly. This result is especially present in mixed-gender interactions. The marginal beauty premium for a one-standard-deviation increase in facial attractiveness amounts to an increase of a contestant's expected earnings of £ 2153, and the probability to obtain positive earnings increases by 5.9 percentage points. Our results are robust to stake size, communication, and previous interactions.

### Frédéric Schneider, Eva Ranehill und Roberto Weber: *Growing Groups, Cooperation, and the Rate of Entry*

Voluntary cooperation is important for many groups. Moreover, due to economies of scale, it is often advantageous for groups to grow but new members can also destabilize cooperation. We consider the robustness

of voluntary cooperation to entry by individuals coming from groups with low cooperation, and explore the importance of the rate of growth. In a laboratory experiment, subjects play a finitely-repeated public good game. The marginal return increases with group size to make large groups attractive if cooperation prevails. Subjects are initially allotted into small, “High-cooperation” groups and large, “Low-cooperation” groups, based on earlier cooperativeness. After a pre-treatment stage we allow movement from the “Low” groups to the “High” groups under two main treatments, Fast growth and Slow growth, that vary the rate at which entrants move into the High-cooperation group. We find that fast growth disrupts efficient public good provision; but when moved in slowly, members of “failed” groups adapt to contribution levels in cooperative groups. This behavior is generally consistent with a belief-driven explanation similar to Fischbacher and Gächter (2010). Adaptation patterns, however, indicate that subjects’ beliefs are biased towards past contribution levels in the “host” group. In a third treatment, subjects in the “High” group are able to decide on the rate of entry by voting. In this treatment, growth occurs slowly but stops short of the efficient group size because the newcomers vote against further entry. Voting for entry is correlated with political orientation. We conclude that the right rate of entry can greatly facilitate keeping cooperation up and that the implementation of an efficient entry policy depends crucially on the collective decision-making process.

## **Session B**

Michael Lamprecht, Klaus Wälde: *Life-cycle consumption with reference-dependent utility*

A large class of Kahneman-Tversky utility functions is proposed which are characterized by loss aversion and diminishing marginal sensitivity. Due to the analytical tractability of these utility functions, we can analyse implied continuous-time consumption dynamics in simple phase diagrams. We apply this setup to studying life-cycle consumption behaviour. We can explain the empirical hump-shape of consumption by age-dependent degrees of loss aversion resulting endogenously from our utility function. We show that the proposed utility function is quantitatively sufficiently flexible to match observed properties of hump-shaped consumption profiles.

Bastiaan Oud, Tony Williams, Jan Engelmann, Eva Krumbhuber, Ernst Fehr: *Facial Cues and Trust-Related Behavior*

What influence do facial cues have on trust-related behavior? We extend the literature by (1) assessing also the behavior of trustees (not just trustors) in trust games, (2) analyzing the role of beliefs in the



translation of facial information into behavior and (3) assessing the accuracy of inferences made from the photos. In a first experiment, we exposed both trustors and trustees in a trust game to pictures of their (actual) counterparts' neutral-expression faces, very subtly morphed in shape towards facial prototypes identified as "trustworthy" or "untrustworthy" by Oosterhof and Todorov (2008). We find significant effects on both first-mover and, interestingly, also second-mover behavior – perhaps an instance of type-based reciprocity. We also assessed how accurate beliefs based on unmodified facial pictures were. Not only were these guesses uncorrelated with the actual behavior of the persons in the photos, but also, guessing certainty was uncorrelated with guessing accuracy, suggesting overconfidence.

Donja Darai, Leif Brandes: *Do Immaterial Transfers Induce Reciprocity? An Experiment on Information Provision and Effort Choice*

In this paper, we test whether immaterial transfers induce reciprocity in a controlled laboratory experiment using an extended version of the dictator game. Immaterial transfers are implemented as giving the receiver the possibility to inform the dictator about her endowment level. We design four treatments that differ in the dictator's knowledge about her endowment level and the receiver's ability to inform the dictator. Our results indicate that dictators offer significantly less when the receiver decided not to inform them, independent of the endowment level. Non-information is also punished if dictators already know their level of endowment. The overwhelming majority of receivers anticipates dictators' behavior and decides to incur costs of information. Even if the information is no news to the dictator 74% of receivers decide to inform, and 90% do so if the information is news to the dictator.

**19.00**

**Workshop Dinner**