

Fehr and Camerer 2007

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- ◇ Goal: Relax the assumption that individuals maximize own-utility with no regard for others.
 - ▶ Social preferences (Altruism, fairness, trust).
- ◇ Use neuroscience/psychology to improve economic models/predictions.

Game 1: Prisoner's Dilemma (Repeated)

		Player B	
Player A	Cooperate with B	Cooperate with A	Defect
	Defect	$(-1,-1)$ $(0,-10)$	$(-10,0)$ $(-5,-5)$

- ◇ With the person next to you:
 - ▶ Play 10 Rounds. Decide who will be A and B.
 - ▶ Each round, pick "Cooperate" or Defect"
 - ☐ Do not tell your partner your choice!
 - ☐ Reveal your choices at the same time.
 - ☐ Record your payoffs.
 - ☐ (First number=A's payoff, Second number=B's.)

- ◇ What happened over the course of your game?
- ◇ How would a purely rational economic agent play this game over a finite number of rounds?
- ◇ What was your thinking behind how you chose your action over the course of many rounds?
- ◇ Would you have played differently if you played against someone new every round? Why or why not?

Game 2: The Investment Game (Berg, Dikhaut, McCabe (1995))

- 1 Find a new partner (move seats!).
 - 2 Decide who will be Player A and who will be Player B.
 - 3 Suppose each of you are given \$10.
 - 4 Player A can choose to send any portion of their endowment to Player B.
 - 5 I will triple this amount before giving it to Player B.
 - 6 Player B can then choose to send any amount back to Player A.
- ◇ Play 10 rounds with your partner.
 - ◇ Each time, record the amount sent by A, $\times 3$, and sent back to B.

- ◇ What happened over the course of your game?
- ◇ How would a purely rational economic agent play this game over a finite number of rounds?
- ◇ What was your thinking behind how you chose your action over the course of many rounds?
- ◇ Would you have played differently if you played against someone new every round? Why or why not?

Game 3: The Gift Exchange Game (Fehr, Kirchsteiger, Reidl (1993))

- 1 Find a new partner (move seats!).
 - 2 Decide who will be the Employer and who will be the Worker.
 - 3 The Employer can offer a low(1), medium(2), or high(3) wage.
 - 4 The Worker then chooses a low(1), medium(2), or high(3) effort.
 - 5 The Employer's payoff is the difference between wage and effort.
 - 6 The Worker's payoff is the difference between effort and wage.
 - 7 Player B can then choose to send any amount back to Player A.
- ◇ Play 10 rounds with your partner.
 - ◇ Each time, record the wage, effort, and payoffs.

Game 3 Debrief

- ◇ What happened over the course of your game?
- ◇ How would a purely rational economic agent play this game over a finite number of rounds?
- ◇ What was your thinking behind how you chose your action over the course of many rounds?
- ◇ Would you have played differently if you played against someone new every round? Why or why not?
- ◇ Why is this called the Gift Exchange Game?

Game 4: The Public Goods Game

- 1 Get into groups of 4-5 people.
- 2 Suppose each of you receive \$10.
- 3 Decide how much of your \$10 to contribute to the common group's pool.
- 4 Do not reveal your contribution to anyone else!
- 5 Write your contribution down on an index card, and raise your hands when everyone has written theirs down.
- 6 I will look at your contributions, multiply them by 2, and divide them equally among group members.
- 7 Your payoff will be the remainder of your private and the allocated pool money.
 - ◇ Play 5 rounds.
 - ◇ Each time, record your final payoff next to your contribution.

- ◇ What happened over the course of your game?
- ◇ How would a purely rational economic agent play this game over a finite number of rounds?
- ◇ What was your thinking behind how you chose your action over the course of many rounds?
- ◇ Would you have played differently if you played with a new group every round? Why or why not?
- ◇ Why is this called the Public Goods Game?