

CUFE
Graduate Seminar Course on Experimental Economics
Spring 2016

Course Syllabus

Faculty Information

Professor: Dr. Bram Cadsby,
Chair Professor, Central University of Finance and Economics, China,
Professor of Economics, University of Guelph, Canada.

Email: bcadsby@uoguelph.ca

Course Schedule

Seminar 1 (April 29) Course overview; What is Experimental Economics; Experiments; Paper 1
(presented by the professor).

Seminar 2 (May 6) Papers 2-4.

Seminar 3 (May 13) Papers 5-7.

Seminar 4 (May 20) Papers 8-10.

Seminar 5 (May 27) Papers 11-13

Office hours: 15 hours TBA.

Course Description and Learning Objectives

This course provides an introduction to the growing field of Experimental Economics. I will make no attempt to cover the entire field of experimental economics in this short five-week course. Rather, I will concentrate on a small number of topics that I find especially interesting. I will also try to respond to your expressed interests. The primary goal is to promote awareness of the experimental approach to testing economic theories and to encourage some of you to do further research in your area of interest using experimental methods. An additional goal is to acquaint you with different approaches to experimental design and the advantages and disadvantages of these different approaches in a variety of economic contexts. Finally, this course aims to help you develop your skills at speaking and writing in English about economic research in a clear, coherent, and precise manner that engages the interest of the listener or reader.

Each of you will lead a number of discussions based on course readings. These will be worth 40% of your grade. Participation in the discussions led by others will be worth 20% of your grade. In addition, you will write a paper for the course. The paper may be a critical survey of a set of experimental papers, an experimental design, or a combination of the two. The paper will be worth 40% of your grade.

Learning Materials

Seminar readings will be assigned and made accessible to students. Students are responsible for obtaining these readings and studying them thoroughly **prior** to each seminar. Reading such papers in advance can help you identify concepts that may pose particular difficulties for you prior to seminar in which it is discussed. This will better enable you to tackle any such challenges in a timely manner with the help of your fellow students and the instructors.

Pedagogy and Learning Approach

This course is designed as an **advanced** research seminar course. Accordingly, active student participation is of vital importance. **To participate actively, it is imperative that you read thoroughly the assigned readings before each class session.** In addition, you must think about them, reflect on them and question them. Every reading deserves your respect, but not your uncritical respect. A creative response to an article, however critical, should be a far greater compliment to a serious researcher than lavish praise and uncritical parroting of his/her conclusions. The quality of the discussion in each seminar will be a direct result of the extent to which students **all** come to the seminar meetings well prepared to discuss the various topics.

During the first seminar, you will participate in some experiments and we will then discuss the results together. Our discussion will focus on some of the fundamental theoretical and methodological issues related to experimental research. I will also present one of my own experimental research papers to you. The remainder of the course will involve student seminar presentations of research from the weekly reading list. We may also participate in some experiments related to the readings. In preparation for each week's class, you will be expected to read a few assigned articles or book chapters. From seminar 2 onward, students will be responsible for most paper presentations as outlined below. **Student presentations should be between 30 minutes and one hour in length including time for clarifying questions and discussion.**

You will be responsible for submitting 1-2 burning questions that relate to the assigned papers for each upcoming seminar. (The paper presenter does not have to submit such questions on the paper s/he is presenting.) The burning questions should focus on: a) the seminar topic and its theoretical and empirical application; b) the research questions or hypotheses investigated in the articles; c) the validity of the research methodology; d) the appropriateness and thoroughness of the data analysis and results; and e) implications of the current research and directions for future research. Please submit your burning questions at latest by 6:00 p.m. the evening before the seminar in which the paper is to be presented. I will ask several students to pose their burning questions to the seminar presenter at the conclusion of the presentation. If your question was addressed during the presentation, you should explain to the class how it was addressed and whether you have any follow-up questions.

Research Paper Presentations

As you read the available research in an area, you need to maintain a critical perspective, evaluating the study on its own merits and in comparison with other studies on the same or a

similar problem with which you may be familiar. Maintaining a critical perspective does not imply that you must identify a major flaw or weakness in every study you read. However, it does mean that you should remember that each piece of research has strengths and weaknesses. The approach outlined below can help guide you in your critical analysis of a research study:

A. Conceptualization

- a. What is the major problem or issue being investigated?
- b. How clearly are the major concepts defined or explained?

B. Theoretical Framework and Hypotheses

- a. Is there a clearly stated research question?
- b. Are there hypotheses? Are they clearly stated?
- c. Are the relationships among the main variables explicit and reasonable?
- d. Are the hypotheses stated in a way that makes them testable?

C. Research Design

- a. What is the research design?
- b. Does the research design adequately control for extraneous variables that are not under study, but may affect the behaviour of the subjects?
- c. Could the design be improved? How?
- d. Are the concepts clearly and reasonably represented by the variables employed?
- e. Is the population appropriate for the research question being studied? Is the manner in which the sample was recruited from the target population specified and appropriate? Can the results reasonably be generalized on the basis of this sample and to what population?

D. Results and discussion

- a. Are the data appropriate for the study?
- b. Are the statistical techniques appropriate and adequately described?
- c. Are the conclusions of the study consistent with the results of the statistical analyses?
- d. Are alternative conclusions that are consistent with the data discussed and accounted for?
- e. Are the theoretical and practical implications of the results adequately discussed?

E. Summary

- a. What is your overall assessment of the adequacy of the study for exploring the research problem?
- b. What is your overall assessment of the contribution of the study to this area of research?

Class Participation

We expect you to contribute your unique skills, experiences, and perspectives to the course. You must prepare for and actively participate in each class session and constructively discuss the readings. If you foresee problems with regard to attendance and/or preparation of reading assignments, you must inform the instructor *prior* to the class in person or by email. Do not

undertake this course if you plan to be absent more than once; missing part of a class constitutes an absence.

You should come to class well prepared, having read the material assigned. You are encouraged to ask questions, make comments, and participate in class discussions. Students who are late or absent are not properly participating in class, regardless of how involved they may be when present. An effective participant:

- Is a good listener;
- Makes points relevant to the ongoing discussion;
- Makes comments that add to our understanding of the reading or article;
- Is willing to challenge ideas that are being expressed;
- Integrates material from past classes and other courses.

Essay

Each student must complete a major term project, which will be in the form of either a research proposal or a critical literature review. A typed, double-spaced report (roughly ten to fifteen pages) is required for the term project. You are encouraged to attempt the research proposal if at all possible. If you decide instead to do a literature review, please consult the professor first to ensure your topic and approach are appropriate. A literature review may evolve into a research proposal as you think about the literature you are reviewing and how you might add to it.

A research proposal should include the following:

1. A brief statement of the research issue you intend to examine.
2. A discussion of why the research question is important and a summary of how your research would provide a contribution.
3. A brief literature review and some development of relevant theory from the literature.
4. A statement of a hypothesis (or hypotheses) and/or a theoretical model.
5. A description of the research design you propose to use.
6. Statement and justification of the proposed research methods to be used for addressing the question.
7. A specific research plan based on the research question and your research design.
8. Your plan of data analysis.

I will be available upon student request to help you develop your research proposal or literature review paper. If you are having trouble developing a research proposal, please talk to me by May 13 at the latest.

You must also prepare and submit a two-page summary of your intended research proposal or literature review in class on May 20. This will give you an opportunity to receive feedback from the instructor as you prepare your proposal. The two-page summary should include the

research topic, purpose of the study, the study hypotheses, and a brief summary of the experimental design.

The due date for the final paper will be announced on the first day of class.

Reading List

Below is a list of the topics and readings we may discuss this semester. We will not be able to study all of these papers. I will choose papers from this list based on your expressions of interest, and announce the papers that we will study in advance.

Introduction

Camerer, C., *Behavioral Game Theory: Experiments in Strategic Interaction*, Russell Sage Foundation, Princeton University Press, 2003, Chapter 1.

Holt, C., *Markets, Games, and Strategic Behavior*, Chapters 1, 2, and 3.

Markets

Forsythe, R., Palfrey, T. and Plott, C., "Asset Evaluation in an Experimental Market," *Econometrica*, 50, (1982), 537–567.

Smith, V., Suchanek, G. and Williams, A., "Bubbles, Crashes, and Endogenous Expectations in Experimental Spot Asset Markets," *Econometrica*, 56 (1988), 1119–1151.

Free-Riding and Social Dilemmas

Andreoni, J., "Why Free Ride: Strategies and Learning in Public Goods Experiments," *Journal of Public Economics*, 37 (1988), 291–304.

Andreoni, J., "Cooperation in Public Goods Experiments: Kindness or Confusion," *American Economic Review*, 85 (1995), 891–904.

Cadsby, C.B. and E. Maynes, "Voluntary Provision of Threshold Public Goods with Continuous Contributions: Experimental Evidence," *Journal of Public Economics*, 71 (1999), 53–73.

Kachelmeier, S. and M. Shehata, "Internal Auditing and Voluntary Cooperation in Firms: A Cross-Cultural Experiment," *The Accounting Review*, 72 (1997), 407–431.

Fehr, E. and S. Gächter, "Cooperation and Punishment in Public Goods Experiments," *American Economic Review*, 90 (2000), 4, 980–994.

Fairness, Trust, and Social Preferences

Berg, J., Dickhaut, J., and McCabe, K., "Trust, reciprocity, and social history," *Games and Economic Behavior*, 10, (1995), 122–142.

Croson, R., and Buchan, N., "The boundaries of trust: own and others' actions in the US and China," *Journal of Economic Behavior and Organization*, 55, (2004), 485–504.

Cadsby, C.B., Song, F., and Bi, Y., "Trust, Reciprocity and *Guanxi* in China: An Experimental Investigation," *Management and Organization Review* 8, 2, (2012), 397-421.

Fehr, E. and K.M. Schmidt, "A Theory of Fairness, Competition, and Cooperation," *Quarterly Journal of Economics*, August (1999), 817–868.

Charness, G. and M. Rabin, "Understanding Social Preferences with Simple Tests," *Quarterly Journal of Economics*, August (2002), 817–869.

Coordination, Iterated Reasoning and Equilibrium Selection

Cooper, R., Dejong, D., Forsythe R. and Ross, T., "Selection criteria in coordination games: Some experimental results." *American Economic Review*, 80 (1990), 218–233.

Amegashie, J.A., Cadsby, C.B. and Song, Y., "Competitive Burnout: Theory and Experimental Evidence," *Games and Economic Behavior*, 59, (2007), 213–239.

Experimental Finance

Cadsby, C.B., Frank, M. and Maksimovic, V., "Pooling, Separating and Semi-Separating Equilibria in Financial Markets: Some Experimental Evidence," *Review of Financial Studies*, 3 (1990), 315–342.

Cadsby, C.B., Frank, M. and Maksimovic, V., "Equilibrium Dominance in Experimental Asset Markets," *Review of Financial Studies*, 11 (1998), 189–232.

R. Forsythe, Lundholm, R. and Rietz, T., "Cheap Talk, Fraud, and Adverse Selection in Financial Markets: Some Experimental Evidence," *Review of Financial Studies*, 12 (1999), 353–362.

Haigh, M.S. and List, J. "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," *Journal of Finance*, 60, (2005) 523–534.

Tax Compliance

Alm, J., McClelland, G.H. and Schulze, W.D., "Why do People Pay Taxes?" *Journal of Public Economics*, 48 (1992), 21–38.

Cadsby, C.B., Maynes, E. and Trivedi, V.U., "Tax Compliance and Authority at Home and in the Lab: A New Experimental Approach," *Experimental Economics*, 9, 4, (2006), 343–359.

Financial Compensation, Peer Effects, Status and Performance

Cadsby, C.B., Song, F. and Tapon, F. "Sorting and Incentive Effects of Pay-for-Performance: An Experimental Investigation" *Academy of Management Journal*, 50, (2007), 387–405.

Gneezy, U., and Rustichini, A. "Pay Enough or Don't Pay At All," *Quarterly Journal of Economics* (2000), 791–810.

Ariely, D., Gneezy, U., Loewenstein, G. & Mazar, N., "Large stakes and big mistakes," *Review of Economic Studies*, 76, 2, (2009), 451–469.

Falk, A. and Ichino, A., "Clean Evidence on Peer Effects," *Journal of Labor Economics*, 24, 1, (2006), 39–57.

Hossain, T. and List, J., "The Behavioralist Visits the Factory: Increasing Productivity using Simple Framing Manipulations," *Management Science* (2012), 2151–2167.

Cohn, A., Fehr, E., Herrmann, B., and Schneider, F., "Social Comparison in the Workplace: Evidence from a Field Experiment". *Journal of the European Economic Association*, 12, 4, (2014), 877–898.

Cheating, Compensation, Goals and Agency

Schweitzer, M., Ordóñez, L. and Douma, B., "Goal Setting as a Motivator of Unethical Behavior," *Academy of Management Journal*, 47, (2004), 422–435.

Cadsby, C.B., Song, F. and Tapon, F. "Are You Paying Your Employees to Cheat? An Experimental Investigation," *The B.E. Journal of Economic Analysis & Policy*, 10, 1, (Contributions), (2010) Article 35.

Gender

Cadsby, C.B. and Maynes, E., "Gender and Free Riding in a Threshold Public Goods Game: Experimental Evidence," *Journal of Economic Behavior and Organization*, 34, 4, (1998), 603–620.

Gneezy, U., Niederle, M., Rustichini, A., "Performance in Competitive Environments: Gender Differences," *Quarterly Journal of Economics*, August (2003), 1049–1074.

Niederle, M. and Vesterlund, L., "Do Women Shy away from Competition? Do Men Compete too Much?" *Quarterly Journal of Economics*, August (2007), 1067–1101.

Cadsby, C.B., Servátka, M. and Song, F., "How Competitive are Female Professionals? A Tale of Identity Conflict," *Journal of Economic Behavior and Organization*, 92, (2013), 284–303

Eckel, C. and Wilson, R., "Judging a Book by its Cover: Beauty and Expectations in a Trust Game," *Political Research Quarterly*, 59, 2, (2006), 189–202.

Bolton, G.E. and Katok, E., "An experimental test for gender differences in beneficent behavior," *Economics Letters*, 48, 3–4, (1995), 287–292.

Eckel, C. and Grossman, P., "Are Women Less Selfish Than Men? Evidence from Dictator Games," *The Economic Journal* 108, 448. (1998), 726–735.

Cadsby, C.B., Servátka, M. and Song, F., “Gender and Generosity: Does Degree of Anonymity or Group Gender Composition Matter?” *Experimental Economics* 13, 3, (2010), 299–308.

Risk Aversion, Rationality and Emotion

Holt, C. and Laury, S., “Risk Aversion and Incentive Effects,” *American Economic Review*, 92, 5, (2002), 1644–1655.

Loewenstein, G., Weber, E., Hsee, C. & Welch, N., “Risk as Feelings,” *Psychological Bulletin*. 127, (2001), 267–286.

Lejuez, C. W., Read, J. P., Kahler, C. W., Richards, J. B., Ramsey, S. E., Stuart, G. L., Strong, D. R., and Brown, R. A., “Evaluation of a behavioral measure of risk-taking: The Balloon Analogue Risk Task (BART),” *Journal of Experimental Psychology: Applied*, 8, (2002), 75–84.

Overconfidence

Camerer, C. and Lovallo, D., “Overconfidence and Excess Entry: An Experimental Approach,” *American Economic Review*, 89, 1, (1999), 306–318.

Clark, J. and Friesen, L., “Overconfidence in Forecasts of own Performance: An Experimental Study,” *Economic Journal*, 119, (2009), 229–251.

Concluding Thoughts

Camerer, C., *Behavioral Game Theory: Experiments in Strategic Interaction*, Russell Sage Foundation, Princeton University Press, 2003, Chapter 9.

Croson, R. and Gächter, S., “The Science of Experimental Economics,” *Journal of Economic Behavior and Organization*, 73, 1, (2010), 122–131.