



**İstanbul
Bilgi University**

LAUREATE INTERNATIONAL UNIVERSITIES



THE 2ND EXPERIMENTAL AND BEHAVIORAL ECONOMICS WORKSHOP

April 16, 2016

Santral Campus ÇSM-402, İstanbul Bilgi University

Program:

08:45 – 09:30 Registration

Session 1

09:30 – 10:00 Democratic Values Transmission
Ayça Ebru Giritligil (İstanbul Bilgi University)

10:00 – 10:30 Payoff inequity reduces the effectiveness of correlated--equilibrium recommendations
Mehmet Yiğit Gürdal (Boğaziçi University)

10:30 – 11:00 Conflict of Individual, Group and Social Interests in Wealth Re-Allocation
Deren Çağlayan (İstanbul Bilgi University)

Chair: Deren Çağlayan

COFFEE BREAK

Session 2

11:30 – 12:00 Dishonesty, Social Information, and Sorting
Zafer Akın (İpek University)

12:00 – 12:30 Altruism through Empathy: Evidence from the Field
Elif Kubilay (Koç University)

Chair: Elif Kubilay

LUNCH



**Istanbul
Bilgi University**

LAUREATE INTERNATIONAL UNIVERSITIES



THE 2ND EXPERIMENTAL AND BEHAVIORAL ECONOMICS WORKSHOP

Session 3

- 14:00 – 14:30 As the Going Gets Tough or Easy in Bargaining
Emin Karagözoğlu (Bilkent University)
- 14:30 – 15:00 Negative Surplus Sharing in Partnerships
Mürüvvet Büyükboyacı (Middle East Technical University)
- 15:00 – 15:30 Time-varying Fairness Concerns and Delay in Bargaining
Kerim Keskin (Bilkent University)

Chair: Kerim Keskin

COFFEE BREAK

Session 4

- 16:00 – 16:30 An Experiment on Goals
Begüm Güney (Özyeğin University)
- 16:30 – 17:00 Costly Preplay Communication and Coordination in Stag-Hunt Games
Serkan Küçükşenel (Middle East Technical University)
- 17:00 – 17:30 Transaction Appetite in Stock Exchange: Effect of Gain and Loss
Gizem Turna (Istanbul Bilgi University)

Chair: Gizem Turna

BREAK

- 17:45 – 16:15 Panel Discussion: How to finance experiments?



**Istanbul
Bilgi University**

LAUREATE INTERNATIONAL UNIVERSITIES



THE 2ND EXPERIMENTAL AND BEHAVIORAL ECONOMICS WORKSHOP

ABSTRACTS

Session 1 (09:30 – 11:00)

Democratic Values Transmission

Ayça Ebru Giritligil, Pablo Brañas-Garza, Maria Paz Espinosa

This study addresses the question of intergenerational transmission of democratic values embedded in social choice rules. We focus on four social choice rules: Plurality, Plurality with a Runoff, the Majoritarian Compromise, Borda's Rule. We confront parents and their children with the same set of hypothetical preference profiles of a hypothetical electorate over some abstract set of four alternatives at which the four social choice rules all disagree, and we ask each subject which alternative should be chosen for the society whose preference profile is shown. The answers by parents and their children are compared and analyzed. Our findings show that Plurality and Majoritarian Compromise are chosen more frequently by parents. On the other hand, children choose the Social Compromise winner (which coincides with the Borda winner in our profiles) significantly more than the parents. In 51 families out of 166, parents and children choose (partially or completely) the same social rules. The full consistency with parents (specifically with fathers) is significantly more in male children.

Payoff inequity reduces the effectiveness of correlated--equilibrium recommendations

Mehmet Yiğit Gürdal, Nejat Anbarci, Nick Feltovich

We examine how individuals' willingness to follow third--party recommendations in 2x2 games is affected by payoff asymmetry. We consider three versions of Battle--of--the--Sexes. Recommendations are determined by a coin flip between the two pure--strategy Nash equilibria, thus inducing a correlated equilibrium under standard (self--regarding) preferences, so that following recommendations constitutes a Nash equilibrium. However, while the payoffs implied by recommendations are equal ex ante, they are unequal ex post. So, sufficiently inequity--averse players can rationally disobey a recommendation that would lead to a very unfavourable payoff distribution.

We derive comparative--static predictions across games based on a model combining level-k reasoning with inequity aversion, and we test these with a laboratory experiment. Our main result is qualitatively consistent with the theoretical model: as payoff asymmetry increases, subjects are more likely to disobey recommendations, resulting in lower levels of coordination and payoff efficiency.



**Istanbul
Bilgi University**

LAUREATE INTERNATIONAL UNIVERSITIES



THE 2ND EXPERIMENTAL AND BEHAVIORAL ECONOMICS WORKSHOP

Conflict of Individual, Group and Social Interests in Wealth Re-Allocation

Deren Çağlayan, Ayça Ebru Giritligil

This study aims to employ controlled laboratory experiments to investigate the conditions under which the motivation for in-group favouritism overcomes the concerns for social welfare. In a context where individual assets can be redistributed at a social cost, we intend to analyse and model how individual concerns on own, own group or social welfare are shaped in accordance with varying conditions. The experimental design is based on Çağlayan and Giritligil (2016): subjects are anonymously and randomly separated into groups as each subject is equally endowed and a randomly designated decision-maker is given two options that he could choose for redistributing individual endowments, which implement equal rise in his payoffs. He can transfer either a part of each in-group member's endowment to himself or a part of each out-group member's endowment to himself and his in-group members. The social loss per reallocated endowment is fixed, but the overall social inefficiency caused by the latter is significantly higher. The findings of Çağlayan and Giritligil (2016) show that in-group favoritism dominates social efficiency concerns, i.e., majority of the subjects choose the latter option despite its higher social cost. The present study aims to check the robustness of this result to various values of experimental parameters, such as the percentage of initial endowments to be redistributed and the social loss per redistributed endowment, in an attempt to guide modelling group favouritism in the context.

Session 2 (11:30 – 12:30)

Dishonesty, Social Information, and Sorting

Zafer Akın

In the dishonesty literature that investigates how people -who have a chance to cheat- behave under different informational structures, certain types of information are exogenously provided. However, this approach predominantly ignores the fact that people -to some extent- can choose which information they want to be exposed to. By conducting a laboratory experiment, we study individuals' decisions to choose which social information is received (average or maximum score of others in a task in which cheating is possible) and the effect of this sorting on their engagement in unethical conduct. We find evidence that sorting exacerbates the level of dishonesty relative to the cases in which social information is either exogenously provided or absent. This implies that previously observed levels of prevalence of dishonesty in the literature can be an underestimate of actual level of dishonest behavior in real-world situations.



**Istanbul
Bilgi University**

LAUREATE INTERNATIONAL UNIVERSITIES



THE 2ND EXPERIMENTAL AND BEHAVIORAL ECONOMICS WORKSHOP

Altruism through Empathy: Evidence from the Field

Elif Kubilay

I study how random wealth shocks affect the development of altruistic preferences within a controlled field experiment. Specifically, I analyze whether children who have experienced losses in a risky decision context are more or less likely to behave altruistically later on, and find that they are more likely to donate to others than children who experienced a positive outcome. The random negative wealth shock increases other-regarding behavior only in children who come from medium- or high-wealth families, who may have been less exposed to such outcomes in their lives. Furthermore, children's decisions to donate are affected not only by their own experiences but also by their friends' wealth status and/or experiences. Taken together, these results suggest that exogenous negative wealth shocks may increase the willingness to donate through increasing people's awareness of other people's emotions and needs, i.e. the level of empathy.

Session 3 (14:00 – 15:30)

As the Going Gets Tough or Easy in Bargaining

Emin Karagözoğlu, Simon Gächter, Arno Riedl

In two bargaining experiments, we explore the effect of a change in pie size and the way this change is framed on bargaining parties' entitlements and behavior. Our experimental design uses an unstructured bargaining protocol, which allows us to study opening offers, concession behavior, duration, and agreement terms. Consistent with the findings in Gächter & Riedl (2005), Karagözoğlu and Riedl (2015), and Bolton & Karagözoğlu (2013), we find that subjects' entitlements are influenced by both the exogenously implemented and implicit reference points. Moreover, we observe that bargaining outcomes are correlated with these subjective entitlements both when the pie is small compared to the status quo (replicating Gächter & Riedl, 2005, 2006) and when the pie is larger than the status quo. We observe no difference in bargaining outcomes across different pie sizes. The results of the second experiment imply that subjects' entitlements and bargaining behavior while bargaining over losses are significantly different from their entitlements and behavior while bargaining over gains. Finally, bracketing (instead of bargaining over an increased/decreased pie, bargaining over the gain/loss) has significant and asymmetric effects on players' behavior and bargaining outcomes.



**Istanbul
Bilgi University**

LAUREATE INTERNATIONAL UNIVERSITIES



THE 2ND EXPERIMENTAL AND BEHAVIORAL ECONOMICS WORKSHOP

Negative Surplus Sharing in Partnerships

Mürüvvet Büyükboyacı

I use an experiment to analyze individuals' choices for two well-known allocation rules proposed by the theoretical literature while sharing negative surpluses (bankruptcy situation): Equal Losses Rule (EL) and Proportional Rule (PRO). For a risk-neutral agent, these rules bring the same expected payoffs. However, depending on the individual's expectation about group's average investment level compared to her own investment level, an individual may prefer one rule to another. I first test how agents' rule choices differ depending on the success rate, their expected payoffs, which are calculated by using their beliefs about group's average investment, as well as some personal characteristics, like gender, and risk aversion. Then, I compare the investment levels when the rules are determined endogenously or exogenously. I find that when the rule is determined endogenously, subjects expect their group members to invest as much as they do under both rules, and they are indifferent between the rules by best responding to their beliefs. I also find that when the rules are determined exogenously, a switch from PRO to EL induces higher investment choices, whereas when the rules are determined endogenously, both rules induce similar investment levels.

Time-varying Fairness Concerns and Delay in Bargaining

Kerim Keskin, Emin Karagözoğlu

Although theoretical predictions suggest immediate agreement in non-cooperative finite-horizon bargaining problems, there are numerous experimental studies observing delayed agreements. In fact, subjects sometimes fail to reach an agreement and leave the table empty-handed. Such behavior can be explained by models with incomplete information. Yet, to the best of our knowledge, delay in finite-horizon bargaining problems has never been explained under complete information. In this study, we use time-varying fairness concerns and our findings indicate that the suggested model can explain delay and disagreement in bargaining.

Session 4 (16:00 – 17:30)

An Experiment on Goals

Begüm Güneş, Neslihan Uluer

We study a two-person game where a (costly) effort selected by the worker affects the output and hence the employer's payoff. Our aim is to understand how the goal and effort levels differ when a goal on output is set prior to the above game by the worker himself (worker-set condition) or by the employer (employer-set condition). We first suggest a theory to predict the possible comparisons between the worker- and employer-set conditions. Then, we plan to test our theory in the lab. We are currently at the stage of designing the experiment.



**İstanbul
Bilgi University**

LAUREATE INTERNATIONAL UNIVERSITIES



THE 2ND EXPERIMENTAL AND BEHAVIORAL ECONOMICS WORKSHOP

Costly Preplay Communication and Coordination in Stag-Hunt Games

Serkan Küçükşenel, Mürüvvet Büyükboyacı

In this paper, we experimentally investigate the impact of costly indirect and direct messages on coordination levels in a stag-hunt game. We also compare the coordination rates with costly pre-play communication to the rates with costless pre-play communication. Three main insights emerge from our experiments. First, we find a significant decrease in message usage with message cost in both treatments and a higher decrease in the indirect-message treatment. Second, we find that although there is no significant effect of costless or costly indirect messages on the frequency of risky actions, both costless and costly direct messages significantly increase the frequency of risky actions. Third, while we find a significant increase in the coordination rate on the payoff-dominant equilibrium from costless indirect message treatment to costly indirect message treatment, this rate significantly decreases from costless direct message to costly direct message treatment. Our findings show that depending on the structure of messages, message cost may increase or decrease the coordination rates on the payoff-dominant equilibrium.

Transaction Appetite in Stock Exchange: Effect of Gain and Loss

Gizem Turna

Do investors change their buying/selling (transaction) behavior depending on whether their investment is in gains or losses? Empirical evidence shows that gains and losses affect the transaction appetite of investors. Transaction appetite is found to be sensitive to gender, age, portfolio size and the returns on the alternative investments, such as foreign currency investment. However, the sensitivity of transaction appetite to gains and losses cannot be fully investigated through empirical research and there is a need to study the behaviour through controlled lab experiments. This presentation aims to discuss the key points in choice of an appropriate experimental design to observe individual intertemporal transaction decisions, such as endowment provision, investment choices, stock pricing, number of transaction periods, payment scheme, etc.