

# Workshop in Experimental Economics, September 10/11, 2012

Place: University of Vienna, Hohenstaufengasse 9, 1010 Vienna

## Monday, September 10

13:00-13:30: Get together, Coffee

13:30 – 13:40: Welcome address

(1)

13:40 – 14:30

### **Promoting Rule Compliance in Daily-Life: Evidence from a Randomized Field Experiment in the Public Libraries of Barcelona**

Presenter: Jose Apesteguia (UPF Barcelona)

(2)

14:30 – 15:20

### **Peer Effects in Prosocial Behavior: Social Norms or Social Preferences?**

Presenter: Daniele Nosenzo (U Nottingham)

Coffee break 15:20-15:50

(3)

15:50 – 16:40

### **Title: Democracy, Disincentives, and the Demand for Redistribution**

Presenter: Jean-Robert Tyran (U Vienna)

(4)

16:40 – 17:30

### **“Do the Right Thing:” The Effects of Moral Suasion on Cooperation**

Presenter: Pedro Dal Bó (Brown U)

Coffee break: 17:30-17:45

(5)

17:45 – 18:40

### **Finding the Hidden Cost of Control**

Presenter: Stephen Leider (U Michigan)

Dinner 19:30 (at Heuriger [Mayer am Pfarrplatz](#))

## Tuesday, September 11

(6)

09:30 – 10:20

### **Managing Social Credibility: An Experiment on Coordination and Leadership**

Presenter: Roberto Weber (U Zurich)

(7)

10:20 – 11:10

### **Voting on Non-binding Agreements**

Presenter: Rupert Sausgruber (U Innsbruck)

Coffee break 11:10-11:30

(8)

11:30 – 12:20

### **Strategic Commitment and Cooperation in Experimental Games of Strategic Complements and Substitutes**

Presenter: Friederike Mengel (U Nottingham and Maastricht)

Lunch 12:20-15:20

at Kunsthistorisches Museum ([café](#)), with guided [tour](#).

(9)

15:20 – 16:10

### **Title: The Welfare Cost of Perceived Policy Uncertainty: Evidence from Social Security**

Presenter: Erzo Luttmer (Dartmouth)

(10)

16:10 – 17:00

### **Title: What Makes Voters Turn Out: The Effects of Polls and Beliefs**

Presenter: Leeat Yariv (Caltech)

17:00 – 17:30

Concluding remarks & discussion

Dinner 19:30

(outside if weather permits: Stiegl-Ambulanz (im Alten AKH), in case of bad weather: tba)

## Book of Abstracts

### (1) Jose Apesteguia (with Patricia Funk and Nagore Iriberry)

Promoting Rule Compliance in Daily-Life: Evidence from a Randomized Field Experiment in the Public Libraries of Barcelona

We study how to promote compliance with rules that carry low penalties and are pervasive in all sorts of organizations. We have access to data on the users of all public libraries in Barcelona. In this setting, we test the effect of sending email messages with different contents. We find that users return their items earlier if asked to do so in a simple email, showing that a general reminder of the users' duty is effective in promoting rule compliance. Furthermore, adding other contents to the general reminder does not increase compliance significantly.

### (2) Daniele Nosenzo (with Simon Gächter and Martin Sefton)

Peer Effects in Prosocial Behavior: Social Norms or Social Preferences?

We compare social preference and social norm based explanations for peer effects in a three-person gift-exchange game experiment. In the experiment a principal pays a wage to each of two agents, who then make effort choices sequentially. In our baseline treatment we observe that the second agent's effort is influenced by the effort choice of the first agent, even though there are no material spillovers between agents. This peer effect is predicted by a model of distributional social preferences (Fehr-Schmidt, 1999). As we show from a norms-elicitation experiment, it is also consistent with social norms compliance. A conditional logit investigation of the explanatory power of payoff inequality and elicited norms finds that the second agent's effort can be best explained by the social preferences model. In further treatments with modified games we find that the presence/strength of peer effects changes as predicted by the social preferences model. As with the baseline treatment, a conditional logit analysis favors an explanation based on social preferences, rather than social norms following for these treatments. Our results suggest that, in our context, the social preferences model provides a parsimonious explanation for the observed peer effect.

**(3) Jean-Robert Tyran** (with Arno Parolini and Rupert Sausgruber)

Democracy, Disincentives, and the Demand for Redistribution

We develop a new design to measure the disincentive effects in labor supply in a laboratory real effort task. We study disincentives from taxing work and redistributing tax revenues per capita when redistribution is imposed vs. chosen in a vote. We find that redistribution is popular, and that disincentives are significantly smaller when redistribution is chosen in vote. That is, the efficiency cost of redistribution is smaller (and tax revenues are higher) when taxation and redistribution is supported by a vote.

**(4) Pedro Dal Bo** (with Ernesto Dal Bo)

“Do the Right Thing:” The Effects of Moral Suasion on Cooperation

The use of moral appeals to affect the behavior of others is pervasive (from the pulpit to ethics classes) but little is known about the effects of moral suasion on behavior. In a series of experiments we study whether moral suasion affects behavior in voluntary contribution games and the mechanisms by which behavior is altered. We find that observing a message with a moral standard according to the golden rule or, alternatively, utilitarian philosophy, results in a significant but transitory increase in contributions above the levels observed for subjects that did not receive a message or received a message that advised them to contribute without a moral rationale. When players have the option of punishing each other after the contribution stage the effect of the moral messages on contributions becomes persistent: punishments and moral messages interact to sustain cooperation. We investigate the mechanism through which moral suasion operates and find it to involve both expectation- and preference-shifting effects. These results suggest that the use of moral appeals can be an effective way of promoting cooperation.

**(5) Stephen Leider** (with Judd Kessler)

“Finding the Hidden Cost of Control”

Abstract: A large and growing literature has demonstrated that explicit incentives imposed by principals — such as enforceable contracts, fines, and monitoring regimes — can have detrimental effects on agent behavior. This literature, however, focuses on what can happen and provides little guidance about when detrimental effects will arise and when they should be incorporated into economic models. We investigate the hidden cost of control, a result in which adding enforceability to a principal-agent contract decreases agent effort. We show that principals are only harmed by imposing control when: (1) they have previously established a prosocial norm with their agent; (2) they impose control unilaterally on the agent; (3) the control is weak, in that it cannot induce significant effort from the agent; and (4) the agent is of a type that does not use control himself when acting as a principal.

**(6) Roberto Weber** (with David Cooper and John Hamman)

"Managing Social Credibility: An Experiment on Coordination and Leadership"

We study a situation in which independent agents face uncertainty about the return from costly and complementary investments to a joint venture. Our specific focus is on the role of a leader with private information, but whose interests are not always aligned with followers, in facilitating successful coordination through cheap-talk recommendation. We study the extent to which leaders in such situations "manage credibility," e.g., by forgoing potentially profitable opportunities to request investment in order to make it more likely that subsequent recommendations to invest are followed. We find clear evidence that leaders manage their credibility in this and other ways. We also study how distinct factors affect credibility. Credibility is most strongly affected by recommendations that yield failure for those who invest, and this is true even when followers know that the recommendation was the results of bad information received by the leaders.

**(7) Rupert Sausgruber** (with Rudi Kerschbamer, Julian Rauchdobler and Jean-Robert Tyran)

Voting on Non-binding Agreements

We study the effect of voting on non-binding agreements in social dilemmas. We consider a setup both with strategic complementarity and substitutability, and vary the game form between a basic social-dilemma game without voting, a cheap-talk game with voting, and a mechanism game enabling subjects to commit their actions to the outcome of the vote. Our results suggest that people have a pronounced tendency to adhere to an agreement established via voting and that the mechanism provides an easy-to-implement institution to exploit this tendency for overcoming social dilemmas.

**(8) Friederike Mengel** (with Matthew Embrey and Ronald Peeters)

Strategic Commitment and Cooperation in Experimental Games of Strategic Complements and Substitutes

We study the impact of strategic commitment on cooperation in repeated games with strategic substitutes (Cournot) and complements (Bertrand) using laboratory experiments. The Bertrand and Cournot stage-games, in which duopolists have four available actions, have the same diagonal payoffs, including the Nash and collusion outcomes, and the same deviation and sucker payoffs. The games primarily differ in the location of the deviation action: for Cournot it is sub-Nash, for Bertrand it is between the collusion and Nash actions. At the beginning of a super-game, subjects program a dynamic response that specifies a recommended action in response to their rival's previous choice. There are four strategic commitment settings: strong, bilateral, unilateral and hot. In all variations subjects can deviate from their recommendation for a modest cost, except the hot where it is for free. In the unilateral, dynamic responses can be modified for a small cost; in the bilateral such modifications also require your rival's consent. For all treatments collusion tends to (weakly)

increase over super-games. Overall, strategic commitment has no effect on cooperation in Cournot and a negative one in Bertrand. We find more cooperation in Bertrand than Cournot in the absence of strong commitment. However, when subjects are more committed to initial plans, a higher level of cooperation is achieved in Cournot. Those results are consistent with a notion of fear of miscoordination based on minmax regret. Neither standard risk-dominance nor renegotiation considerations can explain our results.

**(9) Erzo Luttmer** (with Andrew Samwick)

The Welfare Cost of Perceived Policy Uncertainty: Evidence from Social Security

Policy uncertainty can reduce individual welfare in cases when individuals have limited opportunities to mitigate or insure against consumption fluctuations induced by the policy uncertainty. For this reason, policy uncertainty surrounding future Social Security benefits may have important welfare costs. We field an original survey to measure the degree of policy uncertainty and to estimate the impact of this uncertainty on individual welfare. On average, our survey respondents expect only about 60 percent of the benefits they are supposed to get under current law. We document the wide variation around the expectation for most respondents and the heterogeneity in the perceived distributions of future benefits across respondents. This uncertainty has real costs. Our central estimates show that on average individuals would be willing to forego 4 – 6 percent of the benefits they are supposed to get under current law to remove the policy uncertainty associated with their future benefits. This translates to a risk premium from policy uncertainty equal to 7 – 10 percent of expected benefits.

**(10) Leeat Yariv** (with Marina Agranov, Jacob Goeree and Julian Romero)

What Makes Voters Turn Out: The Effects of Polls and Beliefs

We use laboratory experiments to test for one of the foundations of the rational voter paradigm -- that voters respond to probabilities of being pivotal. We exploit a setup that entails stark theoretical effects of information concerning the preference distribution (as revealed through polls) on costly participation decisions. The data reveal several insights. First, voting propensity increases systematically with subjects' predictions of their preferred alternative's advantage. Consequently, pre-election polls do not exhibit the detrimental welfare effects that extant theoretical work predicts. They lead to more participation by the expected majority and generate more landslide elections. Finally, we investigate subjects' behavior in polls and identify when Bandwagon and Underdog Effects arise.