

Discipline: Methods

1. Language

English

2. Title

Experimental Research and Behavioral Decision Making

3. Lecturer

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4. Date and Location

03-06 September 2018

Paderborn University

Warburger Strasse 100

33098 Paderborn

The first session of the course and the exercises for otree will take place in the experimental laboratory in room Q2.203. The rooms for the lectures and presentations will be announced no later than 2 weeks before the start of the course.

5. Course Description

5.1 Abstract and Learning Objectives

Concepts in behavioral economics such as loss aversion, overconfidence, reciprocity, and inequity aversion are increasingly used to explain deviations from rational behavior in economic decisions. In this PhD course, basic models of behavioral economics and theories used to explain behavior that differs from standard economic assumptions are presented and imparted based on experimental studies. For this purpose, the essential methodological foundations of experimental economic research are introduced, anchored in scientific theory, and delimited from experimental research of neighboring disciplines. In the further course, experimental studies in particular from the fields of management research and business ethics will be extensively reviewed and discussed in order to present the concepts of behavioral economics and their effect on economic decisions. In addition, studies on the

influence of personality disposition on economic decisions and their measurement in experiments are covered. In order to directly apply the acquired knowledge, the participants will develop their own experimental design and instructions in small groups and present their work in plenary on the last day of the course. Furthermore, there will be an introduction to programming with oTree within several tutorials.

5.2 Content

The first day of the course starts with an introduction of experimental economics before participants are asked to actively take part in several short laboratory experiments. In the remainder of the day, the fundamentals of experimental economics will be taught in several interactive lectures. By following this procedure, participants already gain sufficient knowledge at the end of the day in order to start working on their own experimental design within their assigned groups. On the second day, emphasis is laid on selected topics of behavioral economics. First, experiments are presented and discussed that show individuals to have preferences other than assumed by standard economic choice theory, such as fairness, reciprocity and trust. In the subsequent lecture session, several behavioral models of other-regarding preferences are presented which enriched the existing standard economic theories by behavioral patterns observed in the different experimental laboratory studies. In the afternoon, there will be lessons in the programming language otree. The format of this exercise is to give participants opportunities to actively program as much as possible. To achieve this goal, participants will be introduced stepwise into the components of this programming language and asked to apply their skills on programming a simple laboratory experiment. The third day starts with an additional programming slot that will be used to show and apply advanced concepts of otree. Subsequently, there will be lectures on concepts of behavioral economics concerning individual decision-making under risk. In particular, violations of expected utility theory will be discussed and behavioral models such as prospect theory and mental accounting presented in more detail. After the lunch break another slot will be devoted to this topic with the focus of applying these behavioral models to a wide range of research questions. The contents of the next two sessions center around the topic of behavioral ethics. After briefly discussing normative approaches which focus on the question of how people should act when resolving ethical dilemmas, we present and discuss studies of different ethical domains which show how individuals in fact make ethical decisions and judge the ethical decisions of others that are at odds with intuition and the benefits of the broader society. In the last lecture of the final day, the role of personality characteristics and personality traits as a vital predictor of economic decisions are discussed and studies presented that show how personality can be measured in the laboratory and how personality is related to economic outcomes. After the lunch break, each group presents their work to the audience. On request, we will establish an additional slot on that day in which participants can present their ongoing experimental research and receive feedback from the audience and the instructors of the course. At the end of each of the first three days, participants are expected to gather in groups of three to elaborate their own experiment which includes setting up a research question, thinking of an appropriate experimental design, deriving hypotheses to be tested and writing the instructions of the experiment. The contents are expected to be summarized on presentation slides and the instructions written in a separate document that can be handed out to the audience when presenting the experimental design.

5.3 Schedule (including start and end time)

| Time | Monday (03-Sep-2018) | Tuesday (04-Sep-2018) | Wednesday (05-Sep-2018) | Thursday (06-Sep-2018) |
|-----------------------------------|--|--|--|---|
| 09:30 – 11:00 | Introduction to Experimental Economics (Lab) | Experiments on Other-regarding preferences (VO) | Programming in otree (Ü, Lab) | Behavioral Ethics II (VO) |
| 11:00 – 11:15 | Coffee break | | | |
| 11:15 – 12:45 | Fundamentals of Experimental Economics I (VO) | Behavioral Models of Other-Regarding Preferences (VO) | Behavioral Models of Decision Making under Risk (VO) | Personality and Economic Outcomes (VO) |
| 12:45 – 13:45 | Lunch break | | | |
| 13:45 – 15:15 | Fundamentals of Experimental Economics II (VO) | Programming in otree (Ü, Lab) | Applications of Behavioral Decision Theory (VO) | Presentations of group work |
| 15:15 – 15:30 | Coffee break | | | |
| 15:30 – 16:45 | Fundamentals of Experimental Economics III (VO) | Programming in otree (Ü, Lab) | Behavioral Ethics I (VO) | Presentations of own ongoing experimental research projects |
| <i>From 17:00</i> | <i>Working on own experimental ideas in small groups</i> | <i>Working on own experimental ideas in small groups</i> | <i>Working on own experimental ideas in small groups</i> | |

Lab: Session in the experimental laboratory (BaER-Lab: Q2.203), VO: Vorlesung (Lecture), Ü: Übung (Exercise)

5.4 Course format

The course will consist of lectures, exercises, group work, and on the final day of presentations. The lectures are not meant to only teach the contents in a fixed style, rather discussions and interactions on any part of the lectures are mostly welcome. The exercises are on learning otree in a very applied manner, so that after these few slots, participants still get a decent understanding of otree and will have a good point of departure in programming their own experiments in the future. At the end of each of the first three days, participants are asked to get together in groups of three in order to elaborate their experimental ideas. The groups will be arranged shortly after the lunch break at the first day. Presenting the joined work to the audience on the last day constitutes the exam upon which 6 ECTS can be granted. If requested, an additional slot will be installed in which participants can present their ongoing experimental project. To grant a spot in that slot, please get in contact with one of the instructors before the start of the course and be prepared to have your project concisely documented on presentation slides. Lectures are based on classical as well as recent journal articles and working papers. The course will be held in English on demand.

6. Preparation and Literature

6.1 Prerequisites

Participants should hold a Master's degree in business, economics, or psychology. A basic knowledge in microeconomics and game theory is desirable, but not necessarily required for successfully participating in the course.

6.2 Essential Reading Material

The essential reading material should necessarily be read before the course in order to beneficially follow the contents of the lecture and exercise during the compressed course time.

Bazerman, M. H. und Gino, F. (2012): Behavioral Ethics: Toward a Deeper Understanding of Moral Judgment and Dishonesty. In: The Annual Review of Law and Social Science, Vol 8: 85–104.

Croson, R. (2002): Why and How to Experiment: Methodologies from Experimental Economics. In: University of Illinois Law Review, Vol. 2002 (4): 921-945.

Croson, R. und Gächter, S. (2010): The Science of Experimental Economics. In: Journal of Economic Behavior and Organization, Vol. 73 (1): 122-131.

Fahr, R. und Irlenbusch, B. (2008): Identifying Personality Traits to Enhance Trust between Organisations: An Experimental Approach. In: Managerial and Decision Economics, Vol. 29: 469-487.

Falk, A. und Kosfeld, M. (2006): The Hidden Costs of Control. In: The American Economic Review, Vol. 96 (5): 1611-1630.

Fehr, E und; Schmidt, K. M. (1999): A Theory of Fairness, Competition, and Cooperation. In: The Quarterly Journal of Economics, Vol. 114 (3): 817–868.

Fischbacher, U. und Föllmi-Heusi, F. (2013): Lies in Disguise - An Experimental Study on Cheating. In: Journal of the European Economic Association, Vol. 11: 525–547.

Kahneman, D. und Tversky, A. (1979): Prospect Theory: An Analysis of Decision under Risk. In: *Econometrica*, Vol. 47 (2): 263–292.

Mir Djawadi, B. und Fahr, R. (2015): "...and they are really lying": Clean evidence on the pervasiveness of cheating in professional contexts from a field experiment. In: *Journal of Economic Psychology*, Vol. 48: 48–59.

Mir Djawadi, B., Fahr, R. und Turk, F. (2014): Conceptual Model and Economic Experiments to Explain Nonpersistence and Enable Mechanism Designs Fostering Behavioral Change. In: *Value in Health*, Vol. 17: 814–822.

Thaler, R. H. (1999): Mental Accounting Matters. In: *Journal of Behavioral Decision Making*, Vol. 12: 183–206.

6.3 Additional Reading Material

Abeler, J., Becker, A. und Falk, A. (2014): Representative evidence on lying costs. In: *Journal of Public Economics*, Vol. 113: 96–104.

Bartuli, J., Mir Djawadi, B. und Fahr, R. (2016): Business Ethics in Organizations: An Experimental Examination of Whistleblowing and Personality. IZA Bonn (IZA Discussion Paper, 10190).

Benartzi, S. und Thaler, R. H. (1999): Risk Aversion or Myopia? Choices in Repeated Gambles and Retirement Investments. In: *Management Science*, Vol. 45 (3): 364–381.

Ben-Ner, A. und Kramer, A. (2011): Personality and altruism in the dictator game: Relationship to giving to kin, collaborators, competitors, and neutrals. In: *Personality and Individual Differences*, Vol. 51: 216–221.

Berg, J., Dickhaut, J. und McCabe, K. (1995): Trust, Reciprocity, and Social History. In: *Games and Economic Behavior*, Vol. 10 (1): 122–142.

Bolton, G. E. und Ockenfels, A. (2000): ERC: A Theory of Equity, Reciprocity, and Competition. In: *The American Economic Review*, Vol. 90 (1): 166–193.

Camerer, C.F. (2003): *Behavioral Game Theory – Experiments in Strategic Interaction*. Princeton University Press, Princeton.

Camerer, C. F. (2005): Three Cheers - Psychological, Theoretical, Empirical - for Loss Aversion. In: *Journal of Marketing Research*, Vol. 42 (2): 129–133.

Camerer, C.F. und Malmendier, U. (2007): "Behavioral organizational economics." *Behavioral Economics and Its Applications*. Princeton University Press, Princeton and Oxford.

Croson, R. (2005): The Method of Experimental Economics. In: *International Negotiation*, Vol. 10 (1): 131–148.

Dana, J., Weber, R. A. und Kuang, J. X. (2007): Exploiting moral wiggle room: experiments demonstrating an illusory preference for fairness. In: *Economic Theory*, Vol. 33: 67–80.

Dhami, S. (2016): *The Foundations of Behavioral Economic Analysis*. Oxford: Oxford University Press.

Engelmann, D. und Strobel, M. (2004): Inequality Aversion, Efficiency, and Maximin Preferences in Simple Distribution Experiments. In: *The American Economic Review*, Vol. 94 (4): 857–868.

- Falk, A. und Heckman, J.J. (2009): Lab Experiments are a major Source of Knowledge in the Social Sciences. In: *Science*, Vol. 326 (5952): 535-538.
- Ferguson, E., und Heckman, J. (2011): Personality and economics: Overview and proposed framework. In: *Personality and Individual Differences*, Vol. 51: 201-209.
- Friedman, D. und Sunder, S. (1994): *Experimental Methods: A Primer for Economists*. Cambridge University Press, Cambridge.
- Guala, F. (2005): *The Methodology of Experimental Economics*. Cambridge University Press, Cambridge.
- Gintis, H. (2011): Behavioral Ethics. In: E. Slingerland und M. Collard (eds.): *Creating Consilience: Integrating the Sciences and the Humanities*. Oxford: Oxford University Press: 318–333.
- Hausman, D. M. und Welch, B. (2010): Debate: To Nudge or Not to Nudge. In: *The Journal of Political Philosophy*, Vol. 18 (1): 123–136.
- Hertwig, R. und Ortmann, A. (2001): Experimental practices in economics: A method-logical challenge for psychologists? In: *Behavioral and Brain Sciences*, Vol. 24 (3): 383-451.
- Kagel, J. H. und Roth, A.E. (1997): *The Handbook of Experimental Economics*. Princeton University Press, Princeton. [Paperpack der Erstausgabe von 1995]
- Kahneman, D., Knetsch, J. L. und Thaler, R. H. (1990): Experimental Tests of the Endowment Effect and the Coase Theorem. In: *Journal of Political Economy*, Vol. 98 (6): 1325–1348.
- Levitt, S.D. und List, J.A. (2007): What do laboratory experiments measuring social preferences tell us about the real world? In: *Journal of Economic Perspectives*, Vol. 21 (2):153–174.
- Plott, Charles und Vernon L. Smith (eds.) (2008): *The Handbook of Experimental Economics Result*. North-Holland, Amsterdam.
- Read, D., Loewenstein, G. und Rabin, M. (1999): Choice Bracketing. In: *Journal of Risk and Uncertainty*, Vol. 19 (1-3): 171–197.
- Shaked, A. und Binmore, K. (2010): Experimental Economics: Where next? *Journal of Economic Behavior & Organization*, Vol.73 (1): 87-100.

6.4 To prepare

The essential reading material should be read before the start of the course. It is also expected that the participants have extensively dealt with the set of slides. The slides will be sent to the participants no later than two weeks before the start of the course. The course includes a session to present own ongoing experimental research projects. Participants who would like to use this opportunity should get in contact with one of the instructors before the start of the course and prepare a short presentation about the project in advance.

7. Administration

7.1 Max. number of participants

The number of participants is limited to 20.

7.2 Assignments

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7.3 Exam

The exam consists of a twenty-minute group presentation about an own experiment idea which has been elaborated within a group of ideally three participants over the first three days of the course. In addition, a preliminary printed version of the instructions has to be made available to the audience in the presentation. The idea of the experiment may stem either from a modification of a discussed or known experiment or from a completely new "crazy" idea. Each group is asked to schedule enough time for the group work following each day of the course. 60% of the final grade will be based on the group work and the presentation, while oral participation in the lectures and exercises will be included in the final grade for the remaining 40%.

7.4 Credits

The course is eligible for 6 ECTS.