

Econ 211

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Motivation for Today

- ▶ So far in social preferences unit, utility functions we've looked at have only depended on outcomes and actions
- ▶ In theory, utility could also depend on beliefs, e.g.
 - ▶ What others think of you
 - ▶ What you think of yourself
- ▶ Today we explore this possibility in several ways:
 - ▶ Status
 - ▶ Conformity
 - ▶ Norms

Status

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- ▶ Problem: in most social situation status is not randomly assigned
- ▶ Solution: lab experiments

Lab Evidence: Status in Markets

- ▶ Ball, Eckel, Grossman, and Zame (2001) run double-auction market with sellers and buyers
- ▶ Two treatments:
 - ▶ “Awarded” status: Subjects take trivia test, and top half of performers are given gold stars and put on one side of the market (ie either all sellers or all buyers)
 - ▶ “Random” status: Gold stars (and hence market role) are randomly assigned

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 - ▶ “Random” status: Gold stars (and hence market role) are randomly assigned
- ▶ Two questions:
 1. Does status effect market outcome?
 2. Does the way status is assigned (via quiz performance or randomly) matter?

Ball et al: Results

- ▶ Look at price reached in each treatment (“convergent point”):

	Buyers have higher status		Sellers have higher status	
	Awarded:	Random:	Awarded:	Random:
Convergence point:	34.40	32.88	42.09	51.39
(Standard error)*	(0.30)	(1.21)	(1.21)	(1.54)
N	170			
Log likelihood	378.47			

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- ▶ Summary of results?
 - ▶ Final market price favors player with stars
 - ▶ Even if stars randomly assigned

Ball et al: Random Status Results

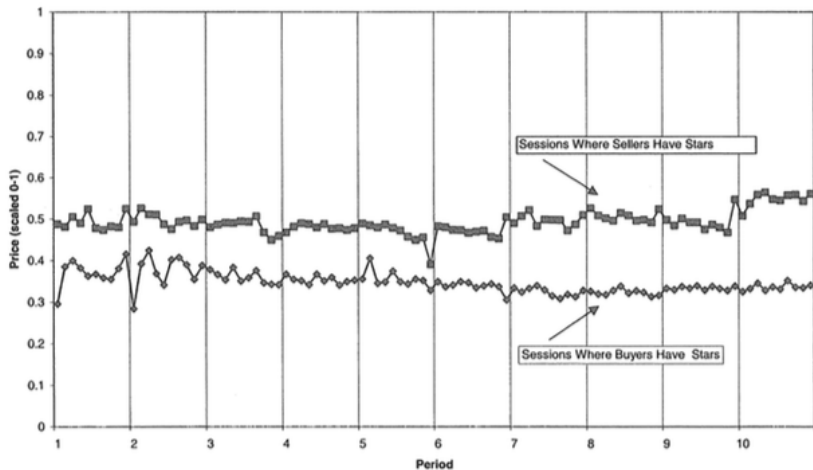
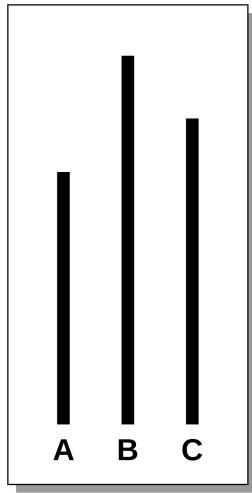
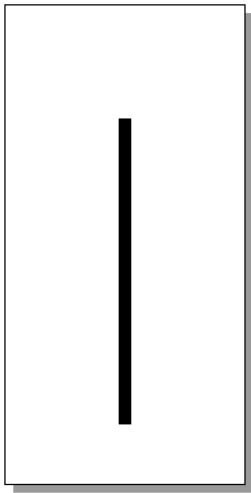


FIGURE II
Average Prices for Buyer Status and Seller Status Sessions

Conformity and Norms

Motivation



Conformity and Norms

- ▶ We know that what others around you are doing can cause you to behave differently than you would in isolation
 - ▶ Recall classic Asch experiments, such as line length task
- ▶ We call this *conformity*: people's choices tend to be more similar than we might expect
- ▶ The point around which behavior clusters is sometimes called the social *norm*
- ▶ Perhaps apparent preferences for fairness are driven by conformity towards a particular norm, eg the 50-50 split

The 50-50 Norm: Theory

- ▶ Andreoni and Bernheim (2009) introduce conformity to the 50-50 norm explicitly into their utility model
- ▶ Dictator controls the pie of size 1
 - ▶ Gives x to receiver and keeps $1 - x$ for self

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- ▶ Dictator utility function:

$$U_D(x, m, t) = tG(x) + F(1 - x, m)$$

- ▶ t : weight dictator puts on fairness
- ▶ G : intrinsic preference for fairness; maximized at $\frac{1}{2}$
- ▶ m : status (depends on others' beliefs about dictator)
- ▶ F : utility from own consumption and status; increasing in both arguments

The 50-50 Norm: Predictions in Dictator Game

- ▶ Model gives several predictions that bear out in standard dictator game:
 - ▶ Clustering at $\frac{1}{2}$
 - ▶ No one gives more than $\frac{1}{2}$
 - ▶ “Trough” just below $\frac{1}{2}$

The 50-50 Norm: Predictions in Modified Game

- ▶ Consider modified dictator game
 - ▶ Computer chooses allocation x_0 for dictator with some probability p
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- ▶ Two predictions for this new game:
 - ▶ Bunching at x_0 and $\frac{1}{2}$
 - ▶ Increasing p will increase size of cluster at x_0 and decrease size of cluster at $\frac{1}{2}$

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- ▶ Intuition?

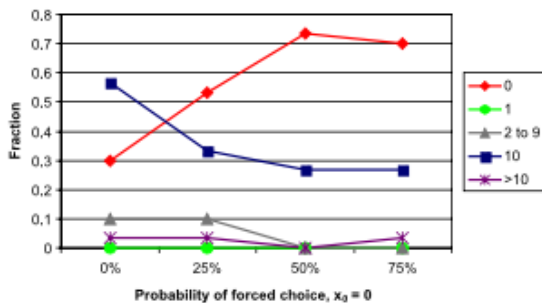
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- ▶ Intuition? People are “hiding behind” computer’s choice

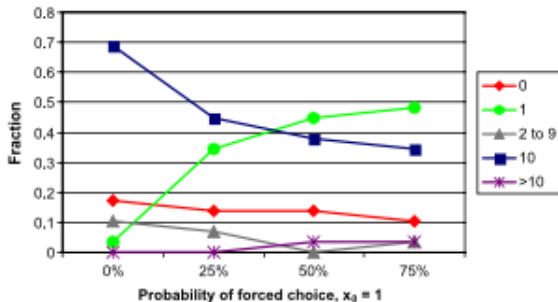
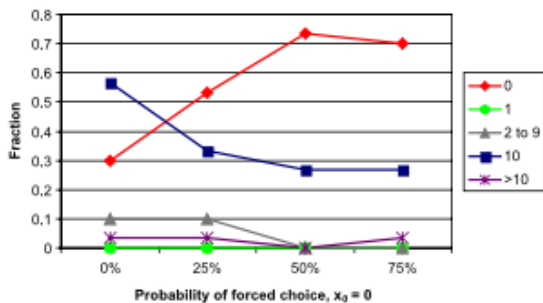
Andreoni and Bernheim (2009): Experiment

- ▶ 118 subjects, randomly divided into pairs
- ▶ Probability p of computer's allocation: 0, 0.25, 0.5, or 0.75
- ▶ Subjects make decision for all 4 probabilities, but only one implemented (strategy method)
- ▶ Subjects split a pie of size \$20
- ▶ Computer allocation x_0 varies across two treatments:
 - ▶ $x_0 = \$0$
 - ▶ $x_0 = \$1$

Andreoni and Bernheim (2009): Results



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Social Norms and Conformity in the Field

- ▶ We just saw that making your choice more observable makes you appear less selfish
- ▶ In the lab, observability is easy to manipulate
- ▶ How can we change observability in the field?
- ▶ Do people avoid situations where they are forced to reveal their preferred amount of giving?

Avoiding the Ask

- ▶ Andreoni, Rao, and Trachtman (2011) run a field experiment with Salvation army bell-ringers standing outside the entrances to a supermarket
- ▶ Important: two entrances to the supermarket
 - ▶ Treatment 1: Bell-ringer standing in front of just one main door
 - ▶ Treatment 2: Bell-ringers in front of both main doors
- ▶ Track number of people going in and out each door, as well as donations received

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- ▶ Track number of people going in and out each door, as well as donations received
- ▶ Second treatment variable: whether or not bell-ringer asked for donations directly or just rang bell
- ▶ This is what is called a 2-by-2 design:

one ringer, no ask	two ringers, no ask
one ringer, ask	two ringers, ask

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- ▶ Based on these results, does asking for donations *necessarily* improve social welfare?
 - ▶ Donations improve welfare of those on receiving end of charity
 - ▶ May also make givers happier
 - ▶ But it is possible that net effect on givers (and avoiders) is negative, and may outweigh positive effects on recipients