



Visiting Professor: **DROUVELIS Michalis**

Period of Stay: **May 2024**

“Economics of Social Preferences”

Course Outline

This module provides a foundation in behavioural economics and the role of experimental methods in economics. The traditional approach in economics is to explain market outcomes and economic decision-making using simple theoretical models based on perfectly rational, self-interested agents who maximise their well-being by carefully weighing up the costs and benefits of different alternatives. Behavioural economics, on the other hand, aspires to relax these stringent assumptions and develop an understanding of how real people actually make decisions. Analogously, experimental economics also contrasts with the approach that, until recently, was more standard. It uses laboratory techniques as a supplement or alternative to drawing data exclusively from the field. The module will introduce students to behavioural and experimental economics, discuss these fields from a methodological perspective and examine several areas of economic analysis in which they are applied.

Prerequisites

The course is designed to be multidisciplinary and non-mathematical. It is suitable for students of all disciplines who have a strong interest in human behaviour, psychology and economics. There are no prerequisites and technical material is kept to a minimum.

Teaching Methods and Materials

- 12 x 1.30hrs Lectures (18hrs)

Readings

The recommended textbook for this module is:

Drouvelis, M. (2021). Social Preferences: An Introduction to Behavioural Economics and Experimental Research. Agenda Publishing.

All topics covered throughout this module are covered in the above textbook.

In addition to this, students who are interested in this course but have no background in Economics or Psychology may read the following popular books:

- Richard H. Thaler and Cass R. Sunstein. 2009. Nudge: Improving Decisions About Health, Wealth and Happiness. Yale University Press.
- Daniel. Kahneman. 2012. Thinking, Fast and Slow. Penguin.
- John List. 2021. The Voltage Effect: How to Make Good Ideas Great and Great Ideas Scale. Currency.

Lecture list

- **Lecture 1: What is Behavioural and Experimental Economics?**

This lecture will discuss the emergence and establishment of behavioural economics as an independent sub-discipline of economics. We will also talk about why economists design



experiments and how we can actually design an experiment. In addition, we will discuss what the methodological differences between economics and psychology experiments are.

Readings:

Drouvelis, M. (2021). Social Preferences: An Introduction to Behavioural Economics and Experimental Research. Agenda Publishing. **Chapter 1**

- **Lecture 2: Bargaining games**

One of the most common aspects of economic and social life that people experience and engage in has to do with bargaining. Here, we will discuss how we can examine bargaining situations through the lens of experimental economics using the so-called ultimatum games. How do individuals make bargaining decisions and what determinants affect their behaviour?

Readings:

Drouvelis, M. (2021). Social Preferences: An Introduction to Behavioural Economics and Experimental Research. Agenda Publishing. **Chapter 2**

- **Lecture 3: Trust games**

An important characteristic of our daily behaviour that determines aspects of economic and social interactions is trust. The presence of trust defines the behavioural content of a host of human relationships, and it is important to identify ways to measure trust in a clean way, ruling out factors that may interfere with trusting behaviour in the field. In this lecture, we will examine whether individuals are willing to trust others and if so, whether it payoffs to trust. What is the role of intentions and what are the behavioural motivations behind individuals' decisions (not) to trust?

Readings:

Drouvelis, M. (2021). Social Preferences: An Introduction to Behavioural Economics and Experimental Research. Agenda Publishing. **Chapter 2**

- **Lecture 4: Gift-exchange games**

The presence of trust has implications in labour market relationships and may affect how salary negotiations take place. In this lecture we will look at how employers and employees make decisions in competitive labour markets and offer evidence on the role of fairness driven consideration which keep such markets out of equilibrium. We will also explore several important factors that have been shown to affect the wage-effort relationship.

Readings:

Drouvelis, M. (2021). Social Preferences: An Introduction to Behavioural Economics and Experimental Research. Agenda Publishing. **Chapter 3**

- **Lecture 5: Public Good games I**

One of the most fundamental issues in the social and behavioural sciences is to understand whether and if so, under which conditions individuals are willing to cooperate in situations where personal interests are at odds with collective benefits. The experimental public goods game literature is extensive, and we will cover two lectures on this important issue. In the first lecture, we will discuss how we can study issues of human cooperation and which mechanisms can explain why and how people cooperate.

Readings:

Drouvelis, M. (2021). Social Preferences: An Introduction to Behavioural Economics and Experimental Research. Agenda Publishing. **Chapter 5**

- **Lectures 6 and 7: Public Good games II**



In the second lecture on public good games, we will continue our discussion on the determinants of human cooperation. In particular, we will look at how cooperation is shaped when decisions are made sequentially (leadership), how people contribute in the presence of income inequality and what psychological factors such as priming may affect contribution levels to the public good.

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapters 5 & 6**

- **Lecture 8: Public Good games with sanctioning I**

The existing public good game literature shows that individuals contribute to the public good, to some extent, but their contribution levels decline over time, converging to what standard economic theory would predict. A growing body of the literature thus asks whether there are ways to regulate self-interested behaviour and shows that one such mechanism is the introduction of sanctioning opportunities which typically leads to higher cooperation rates. In this lecture, we will discuss the most significant developments in the public good game with sanctioning literature and examine the key determinants that affect individuals' propensity to negatively reciprocate against others.

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapter 7**

- **Lecture 9 and 10: Public Good games with sanctioning II**

This lecture follows up on and extends our discussion on the determinants of social norms and negative reciprocity. More specifically, we will look at the circumstances under which the presence of sanctioning opportunities may undermine human cooperation, the role of rewarding (i.e. positive reciprocation) in raising contributions and how the endogenous formation of institutions may shape contribution and sanctioning behaviour.

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapter 8**

- **Lecture 11: Emotions and economic decision-making**

Emotions are pervasive in many social environments and interactions, characterising key aspects of our everyday relations. However, their consequences on economic behaviour have received only limited attention in the economics literature. This lecture will provide you with key insights on the role of emotions in explaining as well as causally impacting economic decision-making. We will discuss evidence mainly stemming from social dilemma games which capture the tension between personal interest and social benefit. In their very nature, such mixed motive environments are loaded with emotions and provide the ideal framework for studying the interplay between emotions and behaviour.

Readings:

Fehr, E., and Gächter, S., (1999). *Cooperation and Punishment in Public Goods Experiments*, Institute for Empirical Research in Economics, University of Zurich, Working Paper No. 10, pp. 26-29.

Cubitt, R., Drouvelis, M., and Gächter, S., (2011). *Framing and free riding: emotional responses and punishment in social dilemma games*. *Experimental Economics*, vol. 14, pp. 254-272.

Drouvelis, M., & Grosskopf, B. (2016). *The Effects of Induced Emotions on Pro-Social Behaviour*, *Journal of Public Economics*, vol. 134, pp. 1-8.



- **Lecture 12: Framing and social preferences**

Recent studies have cast doubt on the robustness of elicited social preferences to framing and contextual changes, especially in dictator and public good games. These studies suggest that behaviour in experimental games is sensitive to seemingly irrelevant context-specific cues. If such findings held more generally for the games used to measure social preferences in the laboratory, this would have serious implications for the external validity of the measures obtained, for the theories motivated by them, and for the explanation of subjects' behaviour. This lecture will provide a summary of the existing literature on the issue of frame-sensitivity in relation to key aspects of individuals' social preferences and will explore the conditions under which framing manipulations matter.

Readings:

- Andreoni, J., (1995). Warm-glow versus cold-prickle: The effects of positive and negative framing on cooperation in experiments. *Quarterly Journal of Economics*, vol. CX, pp. 1-21.
- Gächter, S., Orzen, H., Renner, E., and Starmer, C., (2009). Are experimental economists prone to framing effects? A natural field experiment, *Journal of Economic Behavior & Organization*, vol. 70, pp. 443-446.
- Park, E-S., (2000). Warm-glow versus cold-prickle: a further experimental study of framing effects on free-riding, *Journal of Economic Behavior & Organization*, vol. 43, pp. 405-421.
- Gächter S, Kölle F, Quercia S. (2017). Reciprocity and the Tragedies of Maintaining and Providing the Commons. *Nature Human Behaviour*. 1(9):650-656.

Total number of hours: 18