Experimental Economics  
Economics 266  
6 Credits  

**Basic Information:**  
Classroom: CMC 206  
Class Time: Tuesday and Thursday, 1:15 – 3:00  
Instructor: Clint Pecenka  
Office: Willis 309  
Office Phone: 507-222-4466  
Email: cpecenka@carleton.edu (preferred method of contact)  
Office Hours: Tuesday/Thursday 9:30-11:30 and by appointment (TENTATIVE)  

**Course Description:**  
What do capuchin monkeys and stock-market investors have in common? If you were paid more, would you work harder? Why do people cooperate? What’s the best way to sell your textbooks on eBay? Are people as selfish as economists often assume? If you are curious or concerned about questions like these, economic experiments can help provide answers.  

Experimental economics is a branch of economics that uses experimental methods to test economic theory and examine policy questions. This methodology stands in contrast to most economic research which relies on the observation of naturally occurring economic data. Interest in experimental economics has multiplied over the past 10-20 years and now experimental methods are used in most subfields of economics, most notably behavioral economics.  

This course will introduce students to experimental economic methods and familiarize students with research that contributed to the development of experimental economics as well as areas of current research activity across a range of economic subfields. Students will also conduct and analyze their own economic experiments.  

After the completion of Experimental economics, students will be able to:  
- Explain and discuss the findings of research in experimental economics and related subfields  
- Comprehend and evaluate experimental economic methods and research  
- Conduct and analyze their own experimental economic research projects  

This course is designed so that students engage with the material for their own benefit, but also for the benefit of their peers. More specifically, students will fulfill their responsibilities by attending class, reading the assigned material, actively participating in instructor and peer led economic experiments, engaging in instructor and peer led presentations and embracing the opportunity to lead class discussion. This collaborative course design will differ from a traditional lecture course and will require more active student engagement. This engagement will be rewarded with enhanced comprehension and command of the subject matter.
**Course Prerequisites:**

Principles of Microeconomics (Econ 111) and Principles of Macroeconomics (Econ 110) are course prerequisites. In addition, knowledge of and comfort with statistics, mathematics (including calculus), the scientific method and experiment design is helpful but not required.

**Course Materials:**

*Markets, Games and Strategic Behavior*, by Charles A. Holt is the text for this course. The text is available at the bookstore and online.

In addition to the text, we will frequently read journal articles. These articles will be available on Moodle or given as handouts. Some of these articles may be difficult to read and comprehend. Students are expected to read the entire article and understand at least the main ideas if not all the details of technical sections. A useful way to enhance and test your understanding of challenging material is to read the articles (more than once if necessary) and then discuss them with a small group.

Several other texts have been placed on reserve in the library. These sources will be useful as you develop your research projects and may occasionally be used for assigned reading.

- *Experimental Methods: A Primer for Economists*, by Friedman and Sunder, discusses experiment design and analysis.
- *The Handbook of Experimental Economics*, edited by Kagel and Roth, provides an overview of different classes of experiments.
- *Behavioral Game Theory: Experiments in Strategic Interaction*, by Camerer, discusses many of the same games with more emphasis on behavioral economics.

In addition to the required text, students will be asked to contribute 20 dollars to an incentive pool. This money will be used to reward performance in our classroom economic experiments as well as those that you conduct for your research project. Students eligible for textbook assistance are encouraged to contact the instructor to confidentially make other arrangements for the incentive pool contribution.

The instructor reserves the right to adjust payment amounts for experiments so that overall winnings do not exceed the incentive pool. At the end of the term, any money remaining in the incentive pool will be returned to students.
**Course Requirements:**

As your instructor, you can expect me to show interest in your success, provide opportunities for you to engage with course material and guidance as you do so. Your main responsibilities in this course are few in number, but significant. They include presenting and leading class discussion of a journal article, conducting and presenting original experimental economics research and a final exam. Along the way, students are also expected to read the assigned material as well as attend and participate in class. Your main responsibilities are briefly described below. You will receive additional information about each responsibility in class.

*Leading Class Discussion:*
As part of a small group (~2 students), you will be asked to present and discuss the assigned journal articles for at least one class meeting. Your presentation and the discussion to follow should last approximately 25-35 minutes. The week before your articles will be discussed you should turn in a well-developed outline of your discussion to the instructor. You should also turn in 3 interesting and relevant questions related to the research that can serve as a basis for further discussion and/or potential exam questions. I will review both your outline and questions so that we can discuss any possible extensions or omissions prior to your presentation. In conjunction with your journal article discussion, you will also have the opportunity to help implement at least one classroom experiment on the same topic. This will help prepare you for implementing your own original experimental economics research project.

*Original Research:*
In a small group (~2 students), you will conduct original experimental economics research. Your group will formulate a testable hypothesis, design and conduct the experiment, analyze the results, submit a final paper and briefly present your work to the class.

*Final Exam:*
A final exam covering central findings of assigned readings, applications and extensions of these findings and major course themes will encourage students to actively read the assigned material and participate in class. The final exam will be held in class during the final week of the term.

*Attendance and Participation:*
Attendance is expected. In preparation for journal article discussions and presentations by others, students are expected to read the articles and bring an outline of the article to class. These outlines may be collected and form part of your participation grade.

Students are expected to turn in or present work on the assigned day. Students should not expect late work to be accepted. Please inform the instructor as soon as possible in the event of a conflict.

For information about Carleton's policies on academic honesty including citations, please see: [http://apps.carleton.edu/campus/dos/handbook/academic_regs/?policy_id=21359](http://apps.carleton.edu/campus/dos/handbook/academic_regs/?policy_id=21359).
Course Grading:

This course emphasizes comprehending, evaluating, discussing and conducting experimental economics research. As such, your grade will be largely based on your performance developing and leading class discussion and your research project.

Your overall grade will be based on:

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<td>Original Research Project</td>
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<td>Final Exam</td>
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<td>Attendance and Participation</td>
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Although the instructor reserves the right to lower the percentage required to earn a grade, students should expect the following grading scale.

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Course Policies and Conduct:

Students should be aware of the policies contained in the Carleton Student Handbook related to diversity and harassment: [http://apps.carleton.edu/campus/dos/handbook/policies/](http://apps.carleton.edu/campus/dos/handbook/policies/).

Carleton provides a supportive environment for students with special needs. Students with special needs are encouraged to talk with the instructor as soon as possible to discuss academic accommodation and support services. All discussions will remain confidential. For additional information please see: [http://apps.carleton.edu/campus/wellness/Disability_Services_For_Students/](http://apps.carleton.edu/campus/wellness/Disability_Services_For_Students/).

Tentative † Course Schedule:

9/14-Introduction to Experimental Economics
   Readings:
   - Holt. Ch1
   - Dubner and Levitt. Keith Chen’s Monkey Research

9/16-Pit Markets
   Readings:
   - Holt. Ch 2
   - Benz and Meier. Do People Behave in Experiments as in the Field-Evidence from Donations
     *(Experimental Economics, 2008)*
9/21-Statistics and Reading/Critiquing an Experimental Economics Journal Article

9/23-Risk and Decision Making
Readings:
- Holt. Ch 4
- Apicella et al. Testosterone and Financial Risk Preferences
  (Evolution and Human Behavior, 2008)

9/28-Voluntary Contributions
Readings:
- Holt. Ch 14
- Fehr and Gachter. Cooperation and Punishment in Public Goods Experiments
  (The American Economic Review, September 2000)
- List and Lucking-Reiley. The Effects of Seed Money and Refunds on Charitable Giving: Experimental Evidence from a University Capital Campaign
  (The Journal of Political Economy, February 2002)

9/30-Dictator and Ultimatum Games
Readings:
- Holt. Ch 12
- Hoffman et al. Preferences Property Rights and Anonymity in Bargaining Games
  (Games and Economic Behavior, 1994)
- Solnick and Schweitzer. The Influence of Physical Attractiveness and Gender on Ultimatum Game Decisions
  (Organizational Behavior and Human Decision Processes, 1999)

Due: Inform instructor of your group for final project

10/5-Trust and Reciprocity
Readings:
- Holt. Ch 13
- Fershtam and Gneezy. Discrimination in a Segmented Society
  (The Quarterly Journal of Economics, February 2001)
  (Econometrica, September 2006)
- OPTIONAL-Falk. Gift Exchange in the Field
  (Econometrica, September 2007)

10/7-Endowment Effect
Readings:
- Kahneman et al. Experimental Tests of the Endowment Effect and the Coase Theorem
  (The Journal of Political Economy, December 1990)
- List. Does Market Experience Eliminate Market Anomalies?
- Lakshminaryanan et al. Endowment Effect in Capuchin Monkeys
  (Philosophical Transactions of the Royal Society, 2008)
10/12-Framing Effects and Mental Accounting
Readings:
- Tversky and Kahneman. Rational Choice and the Framing of Decisions
  \((The \ Journal \ of \ Business, \ October \ 1986)\)
- Prelec and Simester. Always Leave Home Without It: A Further Investigation of the
  Credit Card Effect on Willingness to Pay
  \((Marketing \ Letters, \ 2001)\)

Due: One page project proposal

10/14-Information Cascades
Readings:
- Holt. Ch 31
- Anderson and Holt. Information Cascades in the Laboratory (skim section iv)
  \((The \ American \ Economic \ Review, \ December \ 1997)\)
- Oberholzer-Gee. Nonemployment stigma as rational herding: A field experiment
  \((Journal \ of \ Economic \ Behavior \ and \ Organization, \ 2008)\)
- Shiller. How a Bubble Stayed Under the Radar
  \((New \ York \ Times, \ March \ 2, \ 2008)\)

10/19-Private Value Auctions
Readings:
- Holt. Ch 6 appendix
- Holt. Ch 19
- Katkar and Reiley. Public versus Secret Reserve Prices in eBay Auctions: Results
  from a Pokémon Field Experiment
  \((Advances \ in \ Economic \ Analysis \ and \ Policy, \ 2006)\)

10/21-Volunteer’s Dilemma
Readings:
- Holt. Ch 15
- Darley and Latané. Bystander Intervention in Emergencies: Diffusion of
  Responsibility
  \((Journal \ of \ Personality \ and \ Social \ Psychology, \ 1968)\)
- Goeree et al. An Experimental Examination of the Volunteer’s Dilemma
  (Do a Google search for this unpublished paper. It should be easy to find.)

Due: Experiment Design and Experimental Instructions

10/26-Incentives and Motivation
Readings:
- Gneezy and Rustichini. Pay Enough or Not at All
  \((The \ Quarterly \ Journal \ of \ Economics, \ August \ 2000)\)
- Heyman and Ariely. Effort for Payment: A Tale of Two Markets
  \((Psychological \ Science, \ 2004)\)
- Ariely et al. Doing Good or Doing Well: Image Motivation and Monetary Incentives
  in Behaving Prosocially
  \((The \ American \ Economic \ Review, \ 2009)\)
10/28-Student Experiments

11/2-Student Experiments (or topic to be announced)

11/4-Field Experiments and Economic Development
   Readings: To Be Announced

11/9- Neuroeconomics
   Readings: To Be Announced

11/11-Short Presentations of Student Research

11/16-Final Exam (in class)

11/22-Final Paper Due

†The instructor reserves the right to revise the schedule as needed.