

Course Outline -- Preliminary Version ECON 703: Experimental Economics

Fall 2019

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Lecture: Wednesdays 15:30-18:20, LRW 501

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COURSE DESCRIPTION

This graduate-level course surveys the methods and findings of a number of core topics in experimental economics. The course will emphasize experimental design. The presentation of the experimental design on each topic will be preceded by the theory and sometimes by an in-class experiment to illustrate the theory and experiment. The topics covered during this course include individual choice, social preferences (e.g., fairness, trust, cooperation), honesty, markets and market design, mergers and the merger paradox and collusion in repeated games.

COURSE OBJECTIVES

The primary objective of this course is to teach students about the design and implementation of controlled experiments in economics.

By the end of the course students are expected to have gained:

1. a facility for designing a controlled experiment including all of the necessary treatments in order to test cleanly a proposed hypothesis.
2. an understanding of how to implement an experiment with all of its required treatments and how best to run the experiment (e.g., within- or between-subject, computerized or hand-run, in the lab or field, number of subjects needed).
3. an overview of some of the key topics addressed by experimental economists and method employed to address these topics.

CLASS FORMAT

The first 10 weeks will consist of three hours of lecture per week, occasionally interspersed with a classroom experiment in which the students participate and a student presentation on a topic related to the lecture that week. Required readings will be assigned each week. Students are expected to prepare these readings for the following week's class. The final two weeks of the semester will be devoted to student presentations of their research proposals.

COURSE MATERIALS AND TEXTS

There is no textbook for this course. A list of the required readings will be posted on the ECON 703 Avenue to Learn site. The readings are academic journal articles that can be accessed online through the university's library website. To access the university's library resources off-campus, go to <https://library.mcmaster.ca/>.

AVENUE TO LEARN

Course materials, including the course outline, announcements, lecture slides and grades, will be posted on the course Avenue to Learn page. Students are expected to check the ECON 703 Avenue to Learn course page regularly. Please do not use the email within Avenue to contact me. Rather, please use my McMaster email accounts.

Students should be aware that, when they access the electronic components of this course, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course. The available information is dependent on the technology used. Continuation in this course will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure please discuss this with the course instructor.

COURSE EVALUATION – OVERVIEW

Participation: 5%

Midterm Exam: 20%

Student Presentation of Journal Article: 15%

Student Presentation of Research Proposal: 10%

Written Research Proposal: 20%

Final Exam: 30%

COURSE EVALUATION – DETAILS

Participation: 5%

Students are expected to attend class and to prepare the assigned readings in order to participate in the classroom discussion.

Midterm Exam: 20%

A two-hour midterm exam will be held in class on Wednesday October 23, 2019, which corresponds to the first Wednesday after the Reading Week. The midterm exam will cover all of the material taught up until this class. The format of the midterm exam will consist of short-answer, problem-solving and a few multiple-choice questions.

There are no early or deferred midterm exams. If you miss either midterm, no doctor's note or other documentation is needed. The entire weight of the midterm (20%) will be transferred automatically to the final exam. That is, if you do not attend the midterm, your final exam will count for 50% of your final course grade. No exceptions will be made to any of the above rules.

Student Presentation of Journal Article: 15%

Each student will choose a research article from a list to be distributed or in consultation with the instructor. The articles beside which an asterisk (“*”) appears in the Weekly Schedule below are available for students to present. The Allocation of the articles on this list is on a first-come-first-serve basis. Thus, you are encouraged to begin thinking about and choose early your article. The student will present a summary of the article in 35 minutes. The topics for the presentations are chosen to supplement the lectures. To maintain a flow and continuity in the course material, the student presentation on a given topic will take place at the end of the lesson in which the topic is taught.

Your presentation should include the following items:

- What is the research question?
- How do the researchers address this question? What are the methods?
- What are the main findings of the research?
- What is the novelty or contribution of the research, including policy implications?
- Your opinion: What are the strengths and weaknesses of the research? Directions for future research? Any connections or applications to the real world?

As for other pointers to help ensure your presentation is clear and coherent and fits into the 35-minute timeframe, you are strongly advised to practice your presentation in advance since everyone has a tendency to underestimate the time it takes to present material. Also, please skip over entirely the literature review in the article. There is no time for it. Also, avoid spending time on unnecessary details or extensions. You should focus on the experimental design and why the

researchers made their design choices as well as on the main idea with just enough detail for the listener to be able to appreciate what the researchers did.

Your presentation will be evaluated according to the above criteria as well as the slides/file you are required to submit immediately after completing your presentation.

Student Presentation of Research Proposal: 10%

Written Research Proposal: 20%

Each student is expected to propose an original experimental design that addresses a research question of interest. Students are expected to present their research question and accompanying design in a 30-minute presentation during the last two weeks of class and, before their classroom presentation, to submit to the instructor by email (ruffleb@mcmaster.ca) a written version of their research proposal. An “original” design could be entirely new, a new treatment added to an existing design or even a modification of an existing design. The choice of design must be well motivated and distinguished from existing experiments in the literature. The format of both the presentation and the written proposal should be as follows: 1. Research question; 2. Existing literature; 3. Proposed design: how it differs from the literature, justification of various features chosen in experimental design.

After deciding on a topic, please confirm its appropriateness with the instructor before proceeding.

Final exam (30%)

The final exam will test the concepts learned over the course of the semester. The final exam is cumulative; that is, the questions on the final exam will cover material from the entire course with a slight emphasis on material taught since the midterm. The final exam will consist of short-answer, problem-solving and a few multiple-choice questions.

COURSE POLICIES

Grades

Grades will be based on the McMaster University grading scale for graduate courses:

MARK	GRADE
90-100	A+
85-90	A
80-84	A-
77-79	B+
73-76	B
70-72	B-
Below 70	F

Late Presentations and Assignments

A penalty of 50% will be applied to student journal article presentations that take place after the scheduled time.

Late research proposal presentations cannot be accepted due to the tight scheduling of presentations in the final two weeks of classes. Written proposals must be submitted by email to the instructor (ruffleb@mcmaster.ca) before the beginning of the class in which the student presents. A 50% penalty will also be applied to written research proposals submitted late.

Calculators and iClickers

Only McMaster Standard Calculators (Casio FX 991 MS or MS Plus) will be allowed during both the midterm and final exams. iClickers will not be used in the course.

UNIVERSITY POLICIES

Academic Integrity Statement

You are expected to exhibit honesty and use ethical behavior in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behavior can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the [Academic Integrity Policy](#).

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations.

Academic Accommodation of Students with Disabilities

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements. Academic accommodations must be arranged before classes or academic work begins, and for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail sas@mcmaster.ca. For further information, consult McMaster University’s Policy for [Academic Accommodation of Students with Disabilities](#).

Academic Accommodation for Religious, Indigenous and Spiritual Observances

Students who require academic accommodation due to an Observance must submit a RISO form to their Faculty office, electronically or in person, normally within ten working days from the beginning of each term in which they are anticipating a need for Accommodation. For further information, consult McMaster University’s [Policy on Academic Accommodation for Religious, Indigenous and Spiritual Observances](#).

Faculty of Social Sciences E-mail Communication Policy

Effective September 1, 2010, it is the policy of the Faculty of Social Sciences that all e-mail communication sent from students to instructors (including TAs), and from students to staff, must originate from the student's own McMaster University e-mail account. This policy protects confidentiality and confirms the identity of the student. It is the student's responsibility to ensure that communication is sent to the university from a McMaster account. If an instructor becomes aware that a communication has come from an alternate address, the instructor may not reply at his or her discretion.

Course Modification

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check his/her McMaster email and course websites weekly during the term and to note any changes.

WEEKLY COURSE SCHEDULE

Week 1 (September 4, 2019)

Topic: Individual Choice

Readings:

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*.

Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *Science*, 1124-1131.

Kamenica, E. (2012) Behavioral economics and psychology of incentives. *Annual Review of Economics* 4(1), 427-452.

Engström, P., Nordblom, K., Ohlsson, H., & Persson, A. (2015). Tax compliance and loss aversion. *American Economic Journal: Economic Policy*, 7(4), 132-164.

List, John A. "Does market experience eliminate market anomalies?" *Quarterly Journal of Economics* 118.1 (2003): 41-72.

* Gneezy, U., & Rustichini, A. (2000) Pay enough or don't pay at all. *Quarterly Journal of Economics*, 791-810.

* Ariely, D., Loewenstein, G. and Prelec, D., 2003. "Coherent arbitrariness": Stable demand curves without stable preferences. *Quarterly Journal of Economics*, 118(1), pp.73-106.

Week 2 (September 11, 2019)

Topic: Fairness and Negotiation

Readings:

Güth, W., Schmittberger, R. & Schwarze, B. (1982). An experimental analysis of ultimatum bargaining. *Journal of Economic Behavior & Organization*, 3(4), 367-388.

Henrich, J., Boyd, R., Bowles, S., Camerer, C., Fehr, E., Gintis, H., & McElreath, R. (2001). In search of homo economicus: behavioral experiments in 15 small-scale societies. *American Economic Review* 91(2), 73-78.

* Fehr, E., Kirchsteiger, G., & Riedl, A. (1993). Does fairness prevent market clearing? An experimental investigation. *Quarterly Journal of Economics*, 108(2), 437-459.

* Ochs, J. and Roth, A. E. (1989). An experimental study of sequential bargaining. *American Economic Review*, 355-384.

* Roth, A. E., Murnighan, J. K., & Schoumaker, F. (1988). The deadline effect in bargaining: Some experimental evidence. *American Economic Review*, 78(4), 806-823.

* Goeree, J. K., & Holt, C. A. (2000). Asymmetric inequality aversion and noisy behavior in alternating-offer bargaining games. *European Economic Review*, 44(4-6), 1079-1089.

Week 3 (September 18, 2019)

Topic: Trust

Readings:

Berg, J., Dickhaut, J., & McCabe, K. (1995). Trust, reciprocity, and social history. *Games and Economic Behavior*, 10(1), 122-142.

Dickhaut, J., Hubbard, J., McCabe, K., & Smith, V. (1995). *Trust, reciprocity, and interpersonal history: Fool me once, shame on you, fool me twice, shame on me*. Working paper, University of Minnesota.

* Bohnet, I., Greig, F., Herrmann, B., & Zeckhauser, R. (2008). Betrayal aversion: Evidence from Brazil, China, Oman, Switzerland, Turkey, and the United States. *American Economic Review*, 98(1), 294-310.

Week 4 (September 25, 2019)

Topic: Cooperation

Readings:

Andreoni, J., (1988). Why free ride? Strategies and learning in public goods experiments. *Journal of Public Economics* 37(3), 291-304.

Fischbacher, U., Gächter, S., & Fehr, E. (2001). Are people conditionally cooperative? Evidence from a public goods experiment. *Economics letters* 71(3), 397-404.

Herrmann, B., Thöni, C., & Gächter, S. (2008). Antisocial punishment across societies. *Science*, 319(5868), 1362-1367.

Kaplan, T. R., & Ruffle, B. J. (2011). Which way to cooperate. *The Economic Journal*, 122(563), 1042-1068.

* Camerer, C., & Lovo, D. (1999). Overconfidence and excess entry: An experimental approach. *American Economic Review*, 89(1), 306-318.

* Van Huyck, J. B., Battalio, R. C., & Beil, R. O. (1990). Tacit coordination games, strategic uncertainty, and coordination failure. *American Economic Review*, 80(1), 234-248.

* Henrich, J., Heine, S. J., & Norenzayan, A. (2010). The weirdest people in the world? *Behavioral and brain sciences*, 33(2-3), 61-83.

* Levitt, S. D., & List, J. A. (2007). What do laboratory experiments measuring social preferences reveal about the real world? *Journal of Economic Perspectives*, 21(2), 153-174.

Week 5 (October 2, 2019)

Topic: Honesty

Readings:

Ariely, D. *The (honest) truth about dishonesty*. Harper (2012).

Fischbacher, U., & Föllmi-Heusi, F. (2013). Lies in disguise—an experimental study on cheating. *Journal of the European Economic Association*, 11(3), 525-547.

* Abeler, J., Nosenzo, D., & Raymond, C. (forthcoming). Preferences for truth-telling. *Econometrica*.

* Pruckner, G. J., & Sausgruber, R. (2013). Honesty on the streets: A field study on newspaper purchasing. *Journal of the European Economic Association* 11(3), 661-679.

Bhattacharya, H. and Dugar, S. (2019) “The Hidden Cost of Bargaining: Evidence from a Cheating-Prone Marketplace,” unpublished manuscript.

Week 6 (October 9, 2019)

Topic: Game Theory

Readings:

Goeree, J. K., & Holt, C. A. (2001). Ten little treasures of game theory and ten intuitive contradictions. *American Economic Review*, 91(5), 1402-1422.

Camerer, C. F. (1997). Progress in behavioral game theory. *Journal of Economic Perspectives*, 11(4), 167-188.

* Bó, P. D. (2005). Cooperation under the shadow of the future: experimental evidence from infinitely repeated games. *American Economic Review*, 95(5), 1591-1604.

* Fréchette, G.R. and Yuksel, S., 2017. Infinitely repeated games in the laboratory: Four perspectives on discounting and random termination. *Experimental Economics*, 20(2), 279-308.

Reading Week – week of October 16, 2019

Week 7 (October 23, 2019)

Topic: Midterm Exam

Week 8 (October 30, 2019)

Topic: Markets

Readings:

Smith, V. L. (1962). An experimental study of competitive market behavior. *Journal of Political Economy*, 70(2), 111-137.

Smith, Vernon L. "Experimental economics: Induced value theory." *American Economic Review* 66.2 (1976): 274-279.

Forsythe, R., Isaac, R. M., & Palfrey, T. R. (1989). Theories and tests of "blind bidding" in sealed-bid auctions. *Rand Journal of Economics*, 214-238.

* Haruvy, E. & C. Noussair (2006). The Effect of Short Selling on Bubbles and Crashes in Experimental Spot Asset Markets. *Journal of Finance*, 61:3, 1119-1157.

Week 9 (November 6, 2019)

Topic: Experimental Industrial Organization: Mergers

Readings:

Davis, D. D., & Holt, C. A. (1994). Market power and mergers in laboratory markets with posted prices. *Rand Journal of Economics*, 467-487.

Huck, S., Konrad, K. A., Müller, W., & Normann, H. T. (2007). The merger paradox and why aspiration levels let it fail in the laboratory. *The Economic Journal*, 117(522), 1073-1095.

* Weber, R. A., & Camerer, C. F. (2003). Cultural conflict and merger failure: An experimental approach. *Management Science*, 49(4), 400-415.

Week 10 (November 13, 2019)

Topic: Experimental Industrial Organization: Collusion

Readings:

Rotemberg, J., & Saloner, G. (1986). A supergame-theoretic model of price wars during booms. *American Economic Review*, 2, 387-415.

Rojas, C. (2012). The role of demand information and monitoring in tacit collusion. *RAND Journal of Economics*, 43(1), 78-109.

Ruffle, B. J. (2013). When do large buyers pay less? Experimental evidence. *Journal of Industrial Economics*, 61(1), 108-137.

Week 10 (November 20, 2019)

Topic: Auctions and Contests

Readings:

Ariely, D., Ockenfels, A., & Roth, A. E. (2005). An experimental analysis of ending rules in internet auctions. *RAND Journal of Economics*, 890-907.

Forsythe, R., Isaac, R. M., & Palfrey, T. R. (1989). Theories and tests of "blind bidding" in sealed-bid auctions. *RAND Journal of Economics*, 214-238.

* Müller, W., & Schotter, A. (2010). Workaholics and dropouts in organizations. *Journal of the European Economic Association*, 8(4), 717-743.

Ruffle, B. J., & Volij, O. (2016). First-mover advantage in best-of series: an experimental comparison of role-assignment rules. *International Journal of Game Theory*, 45(4), 933-970.

* Offerman, T., & Potters, J. (2006). Does auctioning of entry licences induce collusion? an experimental study. *Review of Economic Studies*, 73(3), 769-791.

Week 11 (November 27, 2019)

Topic: Student Presentations of Research Proposals

Week 12 (December 4, 2019)

Topic: Student Presentations of Research Proposals