



Experimental Methods in Economics and Business

Vittorio Pelligra (UniCa)

Andrea Isoni (UniCa & Warwick University)

Aims of the course:

The course is a short introduction (12 hrs.) to the behavioral and experimental approach to the study of economic behavior and institutions. Experiments are now an established method of investigation in economics (“experimental economics”) and the experimental method is now widely considered as a tool among others in the typical economist’s toolbox. Its use has shed light on many areas, on the theoretical side (decision theory, game theory, markets) as on the more applied ones (policy, development, labor economics, industrial organization, health economics, etc.). The purpose of this course is to provide students with the methodological skills required to understand the design and the results of economic experiments and to introduce the basics on how to conduct experiments in their own research.

Learning outcomes and competences:

Upon successful completion of this course, students will be able to:

- Think in an interdisciplinary way. Behavioral Economics combines knowledge from several disciplines, such as Economics, Psychology, Sociology and Neuroscience. Students will learn how to formalize the concepts from social sciences outside Economics (e.g., fairness, reciprocity, trust, envy etc.) and how to incorporate them into economic models.
- Understand the logic of various types of experiments (lab, field, natural, etc.) and learn how to use experiments to test theoretical ideas.
- Think critically with respect to the results of economic research.

Assessment methods:

Students are required to write an essay (about 2500 words) on a selected topic agreed with the teachers.

Course contents and Syllabus:

<p>Lecture 1 Vittorio Pelligra</p> <p>05/03/2024 h. 10-13 (3 hours)</p>	<p>Part I: Introduction and Methodology</p> <ul style="list-style-type: none"> • Historical developments • Correlation and causality • Difference between psychology and economics • Homo Economicus • WEIRD subjects <p>Part II: How to design and conduct an experiment</p> <ul style="list-style-type: none"> • Hypotheses • Design • Procedures • Experimental subjects • Incentives • Controls • Data analysis <p>Part I Suggested readings:</p> <ul style="list-style-type: none"> • Falk, A. and Heckman, J. (2009): Lab Experiments Are a Major Source of Knowledge in the Social Sciences. <i>Science</i> 326 (5952): 535-8. • Croson, Rachel and Simon Ga2chter (2010): The Science of Experimental Economics. <i>Journal of Economic Behavior and Organization</i> 73(1): 122-31. • Thaler, Richard H. 2000. "From Homo Economicus to Homo Sapiens." <i>Journal of Economic Perspectives</i> 14: 133-141. • Hertwig, R., & Ortmann, a. (2001). Experimental practices in economics: a methodological challenge for psychologists? <i>The Behavioral and Brain Sciences</i>, 24(3), 383–403 • Henrich, J., Heine, S. J., & Norenzayan, A. (2010). "The weirdest people in the world?". <i>Behavioral and brain sciences</i>, 33(2-3), 61-83. • Symposium on 'Experimental economics' in <i>Economic Journal</i>, 1999, F1-F45, containing papers by C. Starmer ('Experimental economics: hard science or wasteful tinkering?'), K. Binmore ('Why experiment in economics?'), G. Loewenstein ('Experimental economics from the viewpoint of behavioural economics') and G. Loomes ('Some lessons from past experiments and some challenges for the future'). <p>Part II Suggested readings:</p> <ul style="list-style-type: none"> • Jacquemet, N., L'Haridon, O., (2018). <i>Experimental Economics: Method and Applications</i>. Cambridge University Press.
<p>Lecture 2 Andrea Isoni</p>	<p>Part III: Experimental tests of decision theory</p> <ul style="list-style-type: none"> • Introduction to Expected Utility Theory

<p>12/03/2022 h. 14-16 (2 hours)</p>	<ul style="list-style-type: none"> • The Common Ratio Effect, the Common Consequence Effect, and the Preference Reversal phenomenon • Practical issues in designing risky-choice experiments <p>Part III Suggested readings:</p> <ul style="list-style-type: none"> • Machina, M (1987). Choice under Uncertainty: Problems Solved and Unsolved. <i>Journal of Economic Perspectives</i> 1(1): 121–154. • Seidl, C. (2002). Preference Reversal. <i>Journal of Economic Surveys</i> 16(5): 621–655. • Starmer, C. and Sugden, R. (1991). Does the Random Lottery Incentive System Elicit True Preferences? An Experimental Investigation. <i>American Economic Review</i> 81(4): 971–978.
<p>Lecture 3 Andrea Isoni 19/03/2024 h. 14-16 (2 hours)</p>	<p>Part IV: Experiments on Coordination and Focal Points</p> <ul style="list-style-type: none"> • Coordination problems • Salient labels and focal points • Tacit bargaining • Matching vs. bargaining • De-emphasising payoff information • Conflict of interest vs. payoff inequality • Player labels vs. strategy labels • Explicit bargaining • Emergence of salience <p>Part IV Suggested readings:</p> <ul style="list-style-type: none"> • Crawford, V.P., U. Gneezy and Y. Rottenstreich (2008), 'The power of focal points is limited: even minute payoff asymmetry may yield large coordination failures', <i>American Economic Review</i>, 98, 1443–1458. • Isoni, A., A. Poulsen, R. Sugden and K. Tsutsui (2013), 'Focal points in tacit bargaining games: experimental evidence', <i>European Economic Review</i>, 59, 167–188. • Isoni, A., A. Poulsen, R. Sugden and K. Tsutsui (2014), 'Efficiency, equality and labelling: An experimental investigation of focal points in explicit bargaining', <i>American Economic Review</i>, 104, 3256– 3287. • Isoni, A., A. Poulsen, R. Sugden and K. Tsutsui (2019), 'Focal points and payoff information in tacit bargaining', <i>Games and Economic Behavior</i>, 114, 193–214. • Isoni, A., R. Sugden and J. Zheng (2020), 'The pizza night game: Efficiency, conflict and inequality in tacit bargaining games with focal points', <i>European Economic Review</i>, 127, 103428. • Isoni, A., Sugden, R. and J. Zheng (2022). Focal Points in Experimental Bargaining Games. In: Karagözoğlu, E., Hyndman, K.B. (eds) <i>Bargaining</i>. Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-030-76666-5_6. • Mehta, J., C. Starmer and R. Sugden (1994), 'The nature of salience: an experimental investigation of pure coordination games', <i>American Economic Review</i>, 84, 658–673. • Schelling, T.C. (1960), <i>The Strategy of Conflict</i>, Cambridge, MA: Harvard University Press.

<p>Lecture 4 Andrea Isoni</p> <p>26/03/2024 h. 14-16 (2 hours)</p>	<p>Part IV: Nudging and Experiments in Behavioural Change</p> <ul style="list-style-type: none"> • The concept of Nudging • Examples of Nudges: Defaults, Social Norms and Honesty Priming • Nudging in the real world: applications by the Behavioural Insights Team (practical challenges in conducting Randomised Control Trials) • Nudging in the lab: understanding when and how nudges work (practical challenges in finding reliable nudges to test new hypotheses) • Replication and pre-registration • An illustration with Honesty Priming <p>Part V Suggested readings:</p> <ul style="list-style-type: none"> • Thaler, R. H. and Sunstein, C. (2003). Libertarian Paternalism. <i>American Economic Review Papers and Proceedings</i> 93(2): 175–179. • Johnson, E. J. and Goldstein, D. (2003). Do Defaults Save Lives? <i>Science</i> 302: 1338–1339. • Mazar, N., Amir, O. and Ariely, D. (2008). The Dishonesty of Honest People: A Theory of Self-Concept Maintenance. <i>Journal of Marketing Research</i> 45: 633–644. • BIT report • Isoni, A., Read, D., Kolodko, J., Arango-Ochoa, J., Chua, J., Tiku, S. and Kariza, A. (2019) “Can Upfront Declarations of Honesty Improve Anonymous Self-Reports of Sensitive Information?” in Bucciol, A. and Montinari, N. (Eds.), <i>Dishonesty in Behavioral Economics</i>, Elsevier. • Verschuere, B., Meijer, E. H., Jim, A., McCarthy, R., Hoogesteyn, K., Skowronski, J., Orthey, R., Acar, O. A., ..., Isoni, A., ..., Yıldız, E. (2018). “Registered Replication Report: Mazar, N., Amir, O., & Ariely, D. (2008)”. <i>Advances in Methods and Practices in Psychological Science</i>: 1(3) 299–317.
<p>Lecture 5 Vittorio Pelligra</p> <p>04/04/2024 h. 10-13 (3 hours)</p>	<p>Part VI: Social Preferences and Cooperation</p> <ul style="list-style-type: none"> • Dictator Game and Ultimatum Game • Voluntary contribution in the Public Good Game • Trust Game, Intentionality and menu-dependence <p>Part VI: Some examples of Lab, Field and Survey experiments</p> <ul style="list-style-type: none"> • Obedience and Experimenter’s demand effect • External validity the other way round • Information in the field • Non-standard subject pools • Social norms and norm-nudging <p>Part VI Suggested readings:</p> <ul style="list-style-type: none"> • Pelligra, V., Reggiani, T., Zizzo, D.J. (2020). “Responding to (Un)Reasonable Requests by an Authority”, <i>Theory and Decision</i> 89(3), pp. 287–311.

	<ul style="list-style-type: none"> • Frigau, L., Medda, T., Pelligra, V., (2019), "From the Field to the Lab. An Experiment on the Representativeness of Standard Laboratory Subjects", <i>Journal of Behavioral and Experimental Economics</i> 78, 160–169. • Becchetti, L., Pelligra, V., Reggiani, T., (2017), "Information, Belief Elicitation and Threshold Effects in the 5X1000 Tax Scheme: A Framed Field Experiment", <i>International Tax and Public Finance</i>, 24(6), 1026-1049. • Pelligra, V., Isoni, A., Fadda, R., Doneddu, G., (2015) "Theory of Mind, Perceived Intentions and Reciprocal Behavior: Evidence from Individuals with Autism Spectrum Disorder", <i>Journal of Economic Psychology</i> 49, 95–107. • Craparotta, F., Pelligra, V., Reggiani, T., (2022). "Trust, Reciprocity and Menu-(in)dependence" <i>Mimeo</i>. • Ballicu, G., Pelligra, V., (2024). "What motives increase blood donation? A field experiment with framing messages" <i>Mimeo</i>.
--	--