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Brief answers to Microquizzes and Review and Problem Questions

Microquiz 19.1

Brief answer: This question is inspired by Croson (2005: 142). As she herself writes, it is better to get in there first, meaning, you as the experimenter should always ask the subjects if they have any questions. You should then approach the questioner and hear the question privately. If the question is something that should be addressed publicly to the group of subjects as a whole then give your answer publicly. The danger is that questions from subjects (asked aloud so that all subjects can hear the question) have the potential to be suggestive in the sense of giving ideas to other subjects as to how they should operate and what decisions they should make during the experiment. This is not something you, as the experimenter, want to happen.

Microquiz 19.2

Brief answer: Well, as the old saying goes, it depends. It has the potential to be a free rider problem since if everyone pays their taxes honestly, then government services from which you will benefit will by and large be provided even if you do not pay your taxes. Of course, if nobody pays their taxes then no services will be provided.

On the other hand, you have a certain percentage chance of being caught and suffering a monetary loss with this type of experiment. See Alm and Jacobson (2007) for a brief summary of some of the main findings of these types of experiments. It clearly will depend on a number of factors: the higher the chance of being caught, the less likely are individuals to free ride. The higher the marginal taxation rate, the more people will think about underreporting income. Alm and Jacobson quote

studies (p. 135) which have found an income-tax elasticity of -0.5 . That is, a 1 percent rise in the marginal tax rate is associated with half a percent drop in reported income.

Microquiz 19.3

Brief answer: Some organizations and researchers take this as evidence of equal or symmetrical treatment; others see it as, in effect, a non-observation. If you treat it as symmetrical treatment, then the numbers for this would be added to the occasions when both candidates were invited for the interview. The end result is that if you treat both candidates not being invited as symmetrical treatment, discrimination can appear lower than it actually is (or higher than it actually is – depending on your point of view!). See Riach and Rich (2002: F487 to F488 for details).

Microquiz 19.4

Brief answer: This question is inspired by Tversky and Thaler (1990) cited in Rabin (1998: 37). As Rabin reports, most subjects choose the *H* bet over the *L* bet when asked to choose between the two, but most subjects put a higher price on the *L* bet. “More generally, people choose bets with a high chance of winning small amounts, but put a higher price on bets with a low chance of winning big amounts; economic theory predicts these two different elicitation procedures should yield the same preferences” (Rabin, 1998: 37).

Microquiz 19.5

Brief answer: There is no hard and fast correct answer on this one. It may very well be entirely subjective as to what constitutes an appropriate methodology in one setting but not the other.

Brief Answers to Review and Problem Questions

- 1 If the survey is being carried out house-to-house, then one could over-sample the up-market areas to ensure that that segment of society is represented sufficiently in your sample. As to less well off people, then increasingly even in developing countries while many will not have access to a fixed-line telephone, they will have access to a mobile phone. Assuming that lists of mobile numbers are available, it might make more sense to target mobile phone users. The point of this question is that if you are an experimenter or a researcher in general, then increasingly you have to think of more and more inventive ways to make sure your experiments or surveys are valid.
- 2 One of the problems is that the participation is voluntary; if everyone had to do the training, then the results from the student evaluation forms from previous years before the training could be compared with evaluation forms after the training. Various statistical measures could then be employed to see if there were significant differences in how the students evaluated their lecturers.

Alternatively, a random sample of lecturers could be chosen by the staff development unit and the staff instructed to take part in the training. Their evaluation by students that they taught could be compared to another random sample of lecturers who didn't take part in the training. The change in evaluation of the training group could be compared with the change in the group that didn't participate in training. This technique is sometimes known as the difference-in-differences approach since the difference in performance of one group is being compared with the difference in performance of the other group.

- 3 It is a matter of opinion, but having viewed the interview of the two distinguished scholars I think the occasion of the granting of Nobel Prizes was, perhaps, not the time and the place to have a full-blown discussion on the ins and outs of rationality! To answer the question fully would, in fairness, require the use of much of the material in the chapter along with much more not contained within the chapter! For students and lecturers alike, the question should be seen more as a way of reinforcing the economist's view of what rationality is as applied to economic agents.
- 4 A clear-cut technique that economists would definitely approve of would be the idea that where subjects are asked to give their opinion on the value of the good being traded to them, the experimenter should use incentive-compatible methods to elicit such valuations. Practice rounds should also be seen as "OK" since in the real world of market economies consumers (business people) do often "practice" by making the same purchase (sale) many times. Through this process of repeat engagement with the market the economic agent learns if he or she has made mistakes by paying too much, for example, for a good.

And just as the actions of economic agents have real consequences in the market (having paid too much for a good, for example, before realizing that a cheaper substitute is present elsewhere), so practice rounds in the class-based settings should have real consequences and be paid for.

- 5 Assume that the buyer's true valuation of a mug, say, used in the experiment is €7. But to try and save him or herself some money they announce that it is only €4. Now two situations can arise: firstly, the random price of the mug is above €4 but just below €7. As such, under the BDM rules the buyer will not transact. He or she has just missed an opportunity to acquire a mug for less than what they valued it at. Secondly, if the random price is less than €4, say €2, then the buyer will transact and pay only the €2. However, if he or she had declared their true valuation to be exactly €7, then even with a random price of €2 they would still only pay €2 *but* the person would have avoided the situation of missing a purchase when the opposite situation occurred by not being able to transact when the random price fell between a lower falsely declared valuation and the real valuation. It is thus in the buyer's interest to declare their true valuation.
- 6 Explaining how the incentive-compatible mechanism works (even in detail) is clearly seen as being appropriate by some experimental economists. But who explains how market incentives work to the billions of consumers in the world? It could be argued that, as mentioned above, through repeat engagement with the market consumers and businesses "learn the hard way." Explaining in detail even with numerical examples how an incentive-compatible mechanism works is simply short-cutting the learning process in the market so that we can get to the end result of what happens after that learning process has been complete.

The difficulty with the above would arise where consumers and businesses engage in the market not on a repeated basis but on an irregular basis. Buying and selling of homes springs to mind along with auctions for businesses who are bidding, for example, for the rights to 3G telecoms licenses. Here the focus of research is surely on what is happening in these irregular economic transactions. As such, the actual learning process (or not as the case might be) is what is of most interest and surely should not be learnt away by instruction.

- 7 We cannot observe the utility function of the individual, but we know that for the experiment to mimic the market the pay-offs to subjects must be such that they are incentive-compatible. If they are not, then they will not induce the type of demand that we observe in the market place.