



Ljubljana Summer School
"Take the Best from East & West"
4 – 22 July 2022

Behavioural and Experimental Economics

Bachelor (final years) & Master

14.00 – 16.30

DROUVELIS Michalis

University of Birmingham, UK

Course objectives and learning outcomes:

This course 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. This course 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.

Course objectives:

The course's objectives are summarized as follows:

1. To engender thinking about economics as an empirical science and what that entails.
2. To introduce students to attempts to relax conventional assumptions such as unlimited rationality and own-payoff maximisation.
3. To provide a foundation knowledge relating to the design and implementation of appropriate experimental tests of economic theories.

Learning outcomes:

The course's learning outcomes are summarized as follows:

1. To demonstrate a broad knowledge of current issues pertaining to the field of behavioural and experimental economics.
2. To demonstrate understanding of verbal, graphical and mathematical representation of economic ideas and analysis, including the relationship between them.
3. To justify conclusions using economic claims with appropriate rigour.
4. To communicate effectively and clearly in written formats using behavioural economics arguments.

Prerequisites for attending the course:

Basic knowledge of microeconomics. No prerequisites.



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Course syllabus/Daily topics:

The course, after a general introduction on the methodology of experimental economics, is organised into the following key topics in behavioural and experimental economics:

LECTURE DAY	TOPIC/SESSION (detailed description)
Monday, 4 July	Welcome session
Tuesday, 5 July	<i>Introduction on the experimental economics methodology • Ultimatum Games • Determinants of bargaining and negotiation differences</i>
Wednesday, 6 July	<i>Dictator games • Cross-cultural differences in fairness norms • Bargaining with proposers' and responders' competition</i>
Thursday, 7 July	<i>Trust games • Determinants of trust behaviour • Gift exchange games</i>
Friday, 8 July	<i>Public goods games • Explaining patterns of cooperation • Who cooperates and why? • Social norms of cooperation</i>
Monday, 11 July	<i>Mechanisms to enforce norms of high contributions • Public good games with monetary punishment • Altruistic Punishment</i>
Tuesday, 12 July	<i>Welfare implications of punishment • Effectiveness of punishment • Cross-cultural differences and anti-social punishment</i>
Wednesday, 13 July	<i>Third party punishment games • Distribution and cooperation norms and strong reciprocity</i>
Thursday, 14 July	<i>Sequential public good games • The role of various communication methods (face-to-face, online, chat) in promoting cooperation</i>
Monday, 18 July	<i>The impact of emotions on economic decision making • Induced emotions and human cooperation in experimental games</i>
Tuesday, 19 July	<i>Framing Effects • Prospect Theory • Contextual changes in social preferences</i>
Wednesday, 20 July	No lectures (preparation for final examination)
Thursday, 21 July	Final examination / Project presentations
Friday, 22 July	Meeting hours with students & Farewell



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Course materials/List of readings:

The main textbook that will be used throughout this course is:

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

Supplementary materials for each week include:

WEEK 1 (5-8 July):

1. Cameron, L., (1999). Raising the Stakes in the Ultimatum Game: Experimental evidence from Indonesia, *Economic Inquiry*, vol. 37, pp. 47-59.
2. Falk, A., Fehr, E., and Fischbacher, U., (2003). On the nature of fair behaviour, *Economic Inquiry*, vol. 41, pp. 20-26.
3. Forsythe, R., Horowitz, J., Savin, N., and Sefton, M., (1994). Fairness in simple bargaining experiments, *Games and Economic Behavior*, 6, pp. 347–369.
4. Güth, W., Schmittberger, R., and Schwarze, B., (1982). An experimental analysis of ultimatum bargaining, *Journal of Economic Behavior and Organization*, vol. 3, pp. 367-388.
5. Roth, A. E., Prasnikar, V., Okuno-Fujiwara, M., and Zamir, S., (1991), “Bargaining and market behavior in Jerusalem, Ljubljana, Pittsburgh and Tokyo: an experimental study”, *American Economic Review*, vol. 81, pp. 1068-1095.
6. Fischbacher, U., Fong, C. M., and Fehr, E., (2009), “Fairness, errors and the power of competition”, *Journal of Economic Behavior and Organization*, vol. 72, pp. 527-545.
7. Berg, J., Dickhaut, J., McCabe, K., 1995. Trust, reciprocity, and social history. *Games and Economic Behavior* 10, 122–142.
8. Gneezy, U., Güth, W., and Verboven, F., (2000), “Presents or investment? An experimental analysis”, *Journal of Economic Psychology*, vol. 21, pp. 481-493.
9. Andreoni, J., (1988). “Why free ride?: Strategies and learning in public goods experiments”, *Journal of Public Economics*, vol. 37, pp. 291-304.
10. Keser, C., (1996). “Voluntary contributions to a public good when partial contribution is a dominant strategy”, *Economics Letters* 50, 359-366.
11. Fischbacher, U., Gächter, S., Fehr, E., (2001). “Are people conditionally cooperative? Evidence from a public goods experiment”, *Economics Letters*, vol. 71, pp. 397-404.



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WEEK 2 (11-14 July):

12. Fehr, E., and Gächter, S., (2000). Cooperation and Punishment in Public Goods Experiments, *American Economic Review*, vol. 90, pp. 980-994.
13. Fehr, E., and Gächter, S., (2002). Altruistic Punishment in Humans, *Nature*, vol. 415, pp. 137-140.
14. Gaechter, S., Renner, E., and Sefton, M., (2008). The long-run benefits of punishment, *Science*, vol. 322, pp. 1510.
15. Masclet, D., Noussair, C., Tucker, S., and Villeval, M-C., (2003). Monetary and Non-Monetary Punishment in the Voluntary Contributions Mechanism, *American Economic Review*, vol. 93, pp. 366-380.
16. Nikiforakis, N., and Normann, H.-T., (2008). A comparative static analysis of punishment in public good experiments, *Experimental Economics*, vol. 11, pp. 358-369.
17. Nikiforakis, N. (2008). Punishment and counter-punishment in public good games: Can we really govern ourselves?, *Journal of Public Economics*, vol. 92, pp. 91-112.
18. Hermann, B., Thöni, C., and Gächter, S., (2008). Antisocial Punishment Across Societies, *Science*, vol. 319, pp. 1362-1367.
19. Fehr, E., and Fischbacher, U., (2004). Third-party punishment and social norms. *Evolution and Human Behavior*, vol. 25, pp. 63-87.
20. Güth, W., Levatia, M. V., Sutter, M, van der Heijden, E., (2007). Leading by example with and without exclusion power in voluntary contribution experiments, *Journal of Public Economics*, vol. 91, pp. 1023-1042

WEEK 3 (18-19 July):

21. Kahneman, D. and Tversky, A., (2000) *Choices, Values and Frames*, Chapter 1. Cambridge University Press.
22. Drouvelis, M., & Grosskopf, B. (2016). The Effects of Induced Emotions on Pro-Social Behaviour, *Journal of Public Economics*, vol. 134, pp. 1-8.
23. Xiao, E., and Houser, D., (2005). Emotion expression in human punishment behavior, *Proceedings of the National Academy of Sciences*, vol. 102, pp. 7398-7401.



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24. 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.

25. 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.

26. 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.

Examination methods and evaluation criteria (weighted categories):

The examination methods for this course will take the form of presentations of experimental designs. Based on the topics we discussed in the Summer School, students will be asked to extend a published experimental paper and present their own economics experiment.

Grading scale (the same for all courses):

DEFINITION	%	LOCAL SCALE	ECTS SCALE	Grade (USA)
exceptional knowledge without or with negligible faults	92-100	10	A	A+, A, A-
very good knowledge with some minor faults	85-91	9	B	B+, B
good knowledge with certain faults	77-84	8	C	B
solid knowledge but with several faults	68-76	7	D	C+, C, C-
knowledge only meets minimal criteria	60-67	6	E	D+, D
knowledge does not meet minimal criteria	<60	5	F	



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Short course leader(s) biography:

I am a Professor of Behavioural Economics at the University of Birmingham, UK. I joined the Department of Economics in 2010 as a Lecturer and became a Senior Lecturer in 2012, a Reader in 2013 and a Professor in 2018. Before coming to Birmingham, I was part of the experimental centres at the University of York, EXEC (where I worked from 2008-2010) and the University of Nottingham, CeDEx (from where I obtained my PhD. I am also affiliated with CESifo (Munich). I serve as Associate Editor for the Journal of Economic Behavior & Organization and Coordinating Editor for Theory and Decision.

My research interests lie in the area of behavioural and experimental economics. Recent research has focused on social preferences, on voluntary cooperation in the presence of free rider incentives, on expression of emotions on enforcement of social norms and on coordination games. My work has been published in Games & Economic Behavior, Journal of Public Economics, European Economic Review, Journal of Economic Behavior & Organization, Journal of Economic Psychology, Experimental Economics, Theory and Decision, Southern Economic Journal, Journal of Behavioral and Experimental Economics and Economics Letters.