

# EC212 Experimental Economics

## (Fall 2020)

Seminar Leader: Israel Waichman  
Course Times: Tue, Thu 10:45-12:15  
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Office hours: Tue, Thu 12:30-13:30 (by appointment)

### Course Description

Experimental economics is the application of experimental methods to economic questions. Experiments are used in economics to test the descriptiveness of economic models, to study behaviour in cases where theory provides ambiguous predictions (or no predictions), and also to test economic policies. The course aims at introducing experimental economics and its various applications in economics. We will conduct some of the experiments in the classroom, providing the participants in the course with first-hand experience of the economic situations that are being thought. The course consists of three parts: In the first part: “the methodology of experimental economics,” we introduce experimental economics. We discuss the merits (and limits) of experiments, and the principles of conducting and analyzing an experiment. In the second part “Applications: Influential experiments in economics”, we survey some of the seminal research in experimental (and behavioral) economics (e.g. market experiments, bargaining experiments, biases and heuristics under uncertainty, public good games, etc.). In the third (short) part, students will present their own small pilot studies. This will be done in pairs.

### Learning Outcomes

- We study controlled experiments and their importance to scientific inference
- We discuss the merits (and limitations) of experiments in economics
- We study how to conduct economic experiments
- We study seminal research in experimental economics: markets experiments, bargaining experiments, prediction markets, public good provision, etc.
- The students will conduct their own experiment and perform an initial data analysis

### Requirements

#### Prerequisites

Participants in the seminar should have passed the "Principles of Economics" and "Microeconomics for Economics" class. It is also highly recommended that they have passed the Statistics course.

#### Textbooks

- The first part of the course is largely influenced by following textbooks (the initial part is identical in both books)

- "Friedman, D., & Sunder, S. (1994) "Experimental methods: A primer for economists," Cambridge university press."
- Cassar A., & Friedman, D. (2004) "Economics Lab: An Intensive Course in Experimental Economics," Routledge "
- Other relevant reading (journal articles) will be provided during the seminar.
- In addition, to get some ideas about behavioral and experimental economics I recommended the following books (these are New York Times bestsellers – not technical textbooks):
  - Daniel Kahneman (2013) "Thinking, Fast and Slow" Farrar, Straus and Giroux.
  - Richard H Thaler and Cass R Sunstein (2009) "Nudge: Improving Decisions About Health, Wealth and Happiness" Penguin Books
  - Richard H Thaler (2016) "Misbehaving: The Making of Behavioral Economics" W. W. Norton & Company

It is essential that you will repeat at home the material that we cover in class.

### Attendance

Attendance at ALL classes is expected. More than two absences (that is absences from two sessions of 90 minutes) in a semester will significantly affect the grade for the seminar.

### Use of cell/mobile phones

The use of cell phones is not allowed during the classes. Please leave your cell phone in your bag during the classes.

### Assessment

Assessment will be based on attendance, preparation for classes, regular and active participation, as well as a mid-term (60 minutes) or an equivalent essay and a final empirical work (see below).

### **Grade breakdown**

Seminar participation (including class exercises and possible quizzes): 20%

Mid-term exam or an equivalent essay (essay will be in pairs): 30%

Presentation of a pilot study (in pairs) and final paper 50% (20% for a presentation; 20% for a final paper; and 10% for being discussant of others' work or for writing a one/two-page referee report).

### Policy on Late Submission of empirical work

Please note the policy from the Student Handbook on the submission of essays: *essays that are up to 24 hours late will be downgraded one full grade (from B+ to C+, for example). Instructors are not obliged to accept essays that are more than 24 hours late. Where an instructor agrees to accept a late essay, it must be submitted within four days of the deadline and cannot receive a grade of higher than C. Thereafter, the student will receive a failing grade for the assignment.*

## Schedule and Course structure

Classes start on Tuesday Sep 1 and run until Thursday Dec 10, with fall break planned for Oct 19– Oct 25. Completion week will take place on December 14–18.

The schedule provided is provisional in order to allow for flexibility. It is the students' responsibility to keep themselves informed of any changes to the schedule provided here. An up-to-date schedule will be maintained by the course management in our Google classroom system. Lecture slides and all other relevant material will be posted in Google classroom (password will be given in the first class).

In particular, the structure of the course is as follows:

### Part I: The Methodology of Experimental Economics

In this part we introduce the why and how to use experiments for scientific conduct and the principles of experimental economics. It includes three topics

- Experimental methods
- Types of experiments
- Designing an experiment

### Part II: Applications: Influential Experiments Economics Research

In this part we will study several topics in experimental economics, such as bargaining (including the well-known ultimatum and dictator games), markets and auctions, biases and heuristics, prediction markets and guessing game, labor markets, voluntary provision of public goods and the tragedy of the commons. Possible extensions are experimental finance, gender difference, etc. During the course we will cover (some of) the groundbreaking work of several Nobel prize laureates, among them Reinhard Selten, Vernon Smith, Daniel Kahneman (with Amos Tversky), Richard Thaler, and Elinor Ostrom.

Selected topics:

- Bargaining
- Markets
- Biases and Heuristics
- Predictions: Guessing Game
- Labor market experiments
- Voluntarily provision of Public Goods

### Part III: A Research Project

In this part (which will start parallel Part II) that accounts for the final evaluation of the course, students will work in pairs to conduct a pilot study where they will have to collect their own data to test a specific hypothesis. The students are required to shortly present it in class and also to write a final paper describing their research. We will discuss the details during the course.