

## President's Corner By Vernon L. Smith

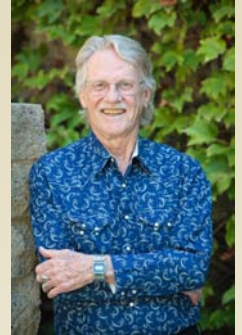
IFREE traveled a long distance in 2011, bringing research support and education outreach to many places, thanks to the encouraging beneficence of many contributors and the expertise of our generous volunteers. In the past 12 months, IFREE has provided research support for faculty affiliated with 12 universities; provided post-doc support; funded 6 outreach student (high school, undergraduate, international/graduate) workshops, including the Summer Scholars Program at Chapman; funded the ESI Lecture Series at Chapman; and provided funding for student research and for graduate students at Chapman and pre-doc support at GMU. In October IFREE granted an award to the University of Alaska Anchorage to sponsor a summer conference on understanding charitable giving through experimental and field research.

When I think about IFREE I feel great about how far IFREE has come and how many wonderful people have been involved in

developing and delivering its mission and vision. IFREE operates by bringing funding support to good ideas and projects, to research and to learning via experimental economics. IFREE makes it possible for good ideas to happen.

I've been reading through the student evaluations of this year's workshops, and what I read affirms the reason that in 1997 Mary Ross and I tackled the problem of how to tap into a source of inspiration that moves people to want to work to make things happen. That inspiration is discovery! IFREE encourages and fosters discovery.

Thank you for being part of this exciting venture called IFREE. Happy holidays to all!...Vernon....



### Career Path Reflections: When I think about IFREE..."

"I was a participant in an early IFREE workshop, and looking back I realize how important it was for my intellectual development. Both the content and style are world class. I love that the research is taught by having the participants play games. I will never forget my \$100 ultimatum game. It is said that good teaching is the perfect combination of heat and light. IFREE did this perfectly." *Terrance Burnham, Associate Professor of Finance, Chapman University*

"Over the years, the biggest gift I received through association with IFREE has been the intellectual understandings through market-based mechanism solutions to inefficiencies. With IFREE's dedicated help, I've enjoyed the freedom of pursuing new inquiries that few have explored before. My recent research at UC Berkeley finds that financial media is biased toward covering stocks with strong past performances, even though these stocks deliver poorer subsequent performances. All that glitters is not gold!" *Shengle Lin, IFREE/Searle post-doc, UC Berkeley*

"My inspiration to pursue experimental economics came from attending an IFREE graduate student workshop in 1998, and I was pleased to be invited back to work as a pre-doc fellow with the experimentalists the following year. Having worked on the trading floor in Chicago prior to grad school, I was immediately impressed with the idea of studying markets in a controlled setting. I love

passing along my inspiration to university students." *Jonathan Alvey, UAA Assistant Professor of Economics*

### IFREE Workshops Expand Range of View, Application, Outlook

#### Workshop Outreach Tradition at Chapman Advances in Style and Scope

At the end of July, almost fifty gifted high school students from around the United States attended the two week-long 'Vernon L. Smith High School Workshops in Experimental Economics' at Chapman University. The long-standing tradition and reputation of the workshops now attract some of the country's brightest, most curious young people.



This workshop began humbly in the late '90's, with a primary focus on students from local high schools. But the unique character of the workshop, which introduces classic economic principles through participation in inventive games and simulations, was destined to attract a wider audience. This year, students from 13 states and the Czech Republic had the opportunity to see their world illuminated through the unique lens of economic experiments. Kyle Hampton, Director of the workshops for the past three years, says, "I was once just like the students I am



*Two recent awards conclude the first full year (2011) of IFREE's Small Grants Program*

## **EXPERIMENTAL INVESTIGATIONS OF ALLIANCE-BUILDING**

*Peter DeScioli, Departments of Psychology and Economics, Brandeis University*

This project will examine human alliance-building in a laboratory environment in which participants can dispute over resources, recruit allies, and choose sides in other people's disputes. Experiments will test predictions from theories about alliances, specifically that people will build alliances when disputes allow for side-taking, that alliance-building will equalize power across individuals, and that alliances will result in more costly disputes. Findings will improve understanding of how people choose sides in disputes, offering insight into how resources are distributed in strategic social environments where people take sides in other people's conflicts. These insights in turn can illuminate a variety of complex human social behaviors such as friendship, gossip, and moral judgment.

## **AN EXPERIMENTAL INQUIRY INTO THE ECOLOGICAL DETERMINANTS OF PROPERTY RIGHTS**

*Erik O. Kimbrough, Assistant Professor of Economics, Simon Fraser University*

Worldwide, societies have developed diverse property right systems to manage resources and reduce conflict. From rules governing common grazing land access to land titling rules, all property systems share certain fundamental features (e.g., delineating access rights and rules of transfer), but particular instances differ in response to local circumstances. Explored here is the hypothesis that *how* each system differs is a predictable consequence of local ecological conditions. Using stylized laboratory experiments, in which these ecological conditions are subject to direct control, this project seeks to observe emergent institutional dynamics across various ecological settings demonstrating the sensitivity of rules to the environment.

### *Highlighting a Year of Research Projects:*

**BUBBLES AND TESTOSTERONE** (*Moana Vervoe and Paul Zak*)...directly manipulating testosterone levels in males raises questions about the influence of testosterone in emerging asset market prices...extending previous research projects examining the role of testosterone in decision-making in the trust, ultimatum and dictator games, and in asset good research.

**POOLING IN AUCTIONS WITH RESALE: EVIDENCE FROM THE LAB AND FIELD** (*Michael K. Price, Robert Hammond*)...varying parameters relating to land auctions conducted by the Nevada Bureau of Land Management (BLM) in which a number of bidders "pooled" at the reserve price. The BLM auctions inspired the design of laboratory experiments aimed at isolating the effect of resale opportunities on pooling at the reserve price.

**SPECIALIZATION AS A COORDINATION MECHANISM: A VIRTUAL WORLDS EXPERIMENT** (*Peter Tnieg, Kevin McCabe*)...using "Second Life," a virtual environment that allows unstructured interaction, researchers ask: Does specialization carry subtle benefits such as the creation of focal points which facilitate the establishment of informal property norms in environments without secure property-rights regimes? Implications on institutional development in the real world abound.

**SMALL VICTORIES: EXAMINING MARKET-DRIVEN SOLUTIONS IN SAVINGS AND DEBT REDUCTION EXPERIMENTS** (*Alexander L. Brown, Joanna Labey*)..."suboptimal savings behavior" is the subject of this research. "Small victories," refers to the idea that motivation to defer consumption can be enhanced by first successfully doing something small.

**DICTATOR GAME GENEROSITY AND REAL WORLD LABOR MARKET OUTCOMES: THIRD WAVE OF A LONGITUDINAL STUDY** (*Catherine J. Weinberger*)...based on a study of 1,800 students playing a dictator game wherein the receiver was a charity. Behavior in this game is related to labor market outcomes as surveys to gather employment information, including educational attainment, salary, and job sector information are conducted.

**RELUCTANT PRO-SOCIALITY** (*Jason Dana*)...shows that people will ignore free information about others' payoffs, and it presents strong challenges to "social preference" models. Remaining "strategically ignorant" might give people moral license to choose a selfish option, given their lack of knowledge about the effect of their choice on others.

**AN INVESTIGATION OF THE AVERAGE BID MECHANISM IN PROCUREMENT AUCTIONS** (*Wei Shiun Chang, Timothy Salmon*)...involves theoretical development analyzing the bid mechanism in which buyers purchase from the seller coming closest to the average price of submitted bids, and also testing the predictions in the lab.

**BIDDER BEHAVIOR AND PERFORMANCE OF AUCTION INSTITUTIONS WITH COSTLY PARTICIPATION** (*Diego Aycinena*)...an investigation of auctions in which there is a cost to participate and bidders must decide whether to incur that cost or not. Revenues are compared across auction formats and number of bidders. Preliminary results have already been presented at International and North American ESA meetings.



## IFREE Workshops Expand *continued...*

now teaching. My first experience of the world through economic experiments was a revelation. These workshops are truly life-changing for many of the students participating. The ‘inner economist’ may not exist in every person, but where it does, nothing is more likely to spark it than participating hands-on in an experiment. And each year, as the workshops expand their reach, I see more gasps, more smiles, and more sparks.” - Kyle Hampton is Assistant Professor of Economics and the Director of the Center for Economic Education at the University of Alaska Anchorage.



### Avatar Economics Adventures at the Center for the Study of Neuroeconomics, GMU

For five days in July, Dr. Kevin McCabe, and graduate student Peter Twieg took nineteen Virginia high school students on the economics virtual ride of their lives. Most of these students had already self-selected into Science, Technology, Engineering and Mathematics curriculums and were excited to be exploring Virtual Worlds immersive technologies while learning about economic science and the scientific method. Kevin and Peter, with the help of the Center for the Study of Neuroeconomics research fellows and CSN/IFREE summer interns, combined demonstration experiments grounded in economic theory with active learning in a peer-to-peer social network. The demonstrations allowed students to explore double auction pricing, public goods provision, social networking, long distance trading, and common resource management. Students were immediately immersed in the virtual world as they learned to control their avatar selves in the CSN virtual training center using a series of challenges to teach basic interface skills necessary to navigate, control and develop avatars and objects. Over the course of the week students worked together in teams on economics projects that culminated with virtual world experiments run using their families and friends as test subjects. Paraphrasing one of the students: Making money + Virtual Worlds + New Topics = FUN! - Kevin McCabe is an IFREE Distinguished Scholar and director of the Center for the Study of Neuroeconomics at George Mason University, and Peter Twieg is a GMU economics PhD student working at the CSN.

### First time Undergraduate Workshop in Experimental Economics in Alaska

In late August the University of Alaska Anchorage Department of Economics welcomed new students to campus with the *Invitation to Economics* workshop. Open to all new UAA students, regardless of major, participating students both learned and earned, and left the workshop enthusiastic about their introduction to the experimental approach to economics. Day one focused on market exchange with participation in Chamberlain-and Smith-style double auctions in the morning, recapitulating some of the history of the field. In the afternoon an asset market experiment produced the expected

bubble, and the students expressed both knowledge and interest in the relevance of the topic to recent volatility in the housing and stock markets. Day two focused on both common pool resources and an introduction to normal and extensive form games. The common pool game focused on the property rights approach to fisheries management, a topic vital to Alaska. The afternoon introduced students to personal exchange through normal form and extensive form games, which many found to be the highlight of the sessions. Student/faculty interactions were not limited to the formal discussion but continued at breaks and over lunch, and have spilled over into the new semester. Participants described the workshop as “awesome and the best way to learn,” and “fun, informative, and worth my time.” “In the workshop, you learn a lot and you get some real life knowledge that is usable.” - Workshop organizers, Jonathan Alvey, Kyle Hampton and Lance Howe, are Assistant Professors of Economics, UAA.

### Brain Food and Socratic Learning at Chapman University

The IFREE-sponsored Summer Scholars Program held at Chapman University was a six-week boot camp for the brain. Every morning eight students, five from Professors Bart Wilson’s and Jan Osborn’s Humanomics class at Chapman the previous fall; three former participants in an IFREE-sponsored high school experimental economics workshop (one now attending Johns Hopkins, one at Emory, and one a rising junior in high school) would meet in the ESI Conference Room to begin the day with a book talk. The group explored ideas in Adam Smith’s *The Theory of Moral Sentiments*, Hayek’s *The Fatal Conceit*, Vernon Smith’s *Rationality in Economics* as well as North, Wallis, and Weingast’s *Violence and Social Orders*, Steven Pinker’s *The Stuff of Thought*, and Aravind Adiga’s novel *The White Tiger*. As if that did not stretch the brain enough, discussions were followed by experiments, the reading of papers on those experiments, a discourse analysis primer, analysis of chat in the Trade/Famine Experiment, and work in small groups to imagine and research new experiments. Questions were central to the Summer Scholars Program: “What research question is this experiment designed to answer?”; “What are the effects of intellectual property protection on innovation?”; “What are the considerations for the first player in the ultimatum game?”; “What is the role of morality in economics?”; “How can we better understand the relationship between *propriety* and *property*?” Each day was organized to allow the young scholars opportunity to work closely with faculty, both in discussion and in the lab. Every question led to new questions, just as “way leads on to way” in Robert Frost’s poem, “The Road Not Taken.” Certainly, the journey continues for these summer scholars. - Jan Osborn is Professor of Education and English and Bart J. Wilson is the Donald P. Kennedy Endowed Chair in Economics and Law at Chapman



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## Support IFREE

### IFREE's Mission Statement:

To advance the understanding of exchange systems and the testing and application of market-based institutions by:

- *funding* basic research in economics through experimental methods,
- *supporting* the scholarly development of students and pre- and post-doctoral visitors,
- *sponsoring* innovative hands-on participatory learning in experimental economics in a variety of settings, and
- *promoting* extended discussion of experimental economics research applications to policy.

At the heart of IFREE are the donors who bring life to the IFREE organization through their commitment to supporting IFREE's Mission.

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