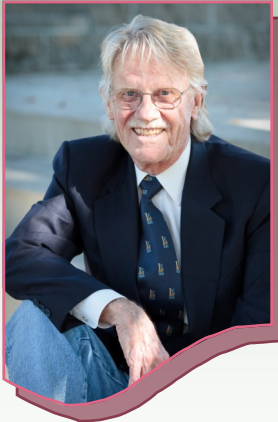


President's Corner By Vernon L. Smith



Special Focus:

IFREE EDUCATION PROGRAMS

It's my pleasure to share with you the success of the educational programs supported by IFREE. Thank you for your generous support in the provision of these opportunities. Have a peaceful holiday season! Vernon

University of Alaska Anchorage Incoming Student Workshop (Kyle Hampton), August 2013

Indicative of the demand for this experimental economics workshop is the nearly doubling of the number of applications (70) over the previous year. Participation was evenly divided between men and women; twenty-one students from Alaska, three international students, and the rest were from the Lower 48. Some of the students had been exposed to economics, but the overwhelming majority of students had academic plans that would not necessitate their taking another economics course.

Goals for the workshop were to excite students about economics, encourage them to take more economics courses, and increase the number of economics majors. Survey responses suggest that we succeeded—most students indicated an interest in taking additional economics courses and quite a few stated that the workshop was a major factor in that decision. We are developing a process for tracking these students to better assess our efforts.

2013 Summer Scholars Program and High School Workshop, Chapman University (Bart Wilson and Kyle Hampton)

IFREE's six 2013 summer scholars engaged in an intense study program including readings in classical liberal political economy, laboratory market and personal interaction (game) experiments. The summer scholars worked daily with the students in two week-long high school workshops within their six-

week program. We draw from one of the excellent letters written in appreciation for the support provided by IFREE. Reed Halberg's letter illustrates how he came into the program and speaks also to the transformations he felt that it helped to facilitate:

At Chapman I had the strange pleasure of taking Bart Wilson's Social Justice course—'strange' meaning that it was not what I had expected... Having surrounded myself with college students my ideological exposure tends to tip leftward (a friend back home asked hopefully "Do you think a communist government will ever be possible?" I said, "We'll talk when I get back."). I figured 'Social Justice' would be redundant with cries for a better world as made by my friends. I was pleasantly surprised; it was very refreshing to hear a coherent argument from one side or the other coming from Hayek. Out of curiosity for exploring matters more deeply I gladly accepted Bart's invitation to attend the Summer Scholars Program. He pointed out the pessimism I had expressed in both class discussion and in my papers. Upon reflection, and with some world view information, I am shocked and a little saddened by how deeply rooted and unchallenged this pessimism seems to be. I doubt I can change a million minds, but I can try to get those I know well to think differently, and celebrate what they and others have, rather than fret over every little bump in the road. Encouragingly, my friends seem to find me persuasive...





IFREE Announces Fall 2013 Small Grants Awards:

“Strategic Delegation in Asymmetric Cost Duopolies: An Experimental Study”

Chineze E. Christopher, PhD student, Purdue University

This project studies delegation and cost asymmetry in two-seller markets. The research asks: if owners optionally delegate production levels to managers, do they produce at the predicted level? This research aims to provide an experimental test on whether and how the strategic use of managers and managerial incentives influences rivalry among firms under asymmetric cost. In such a market, strategic delegation improves welfare but reduces the market power of the efficient firm—the efficient firm produces a larger fraction of demand at lower prices. However, since the efficient firm can profitably alter the payoffs to a greater extent than the inefficient firm can, it becomes dominant and its decision to delegate can be interpreted as exercising its market power. Results from this study should be relevant for antitrust policy in light of controversial market reorganizations—vertical integrations, mergers, acquisitions—likely to create cost asymmetries among firms.

“Endogenous Institution Formation”

David Kingsley, Assistant Professor, University of Massachusetts Lowell

Alleged market failure motivates the formation of institutions regulating individual behavior and enhancing welfare. Despite the ubiquity and importance of institutions little is known about their emergence. This experiment allows groups to choose both institutional deterrence and cost. To increase deterrence the group must incur increased cost, impacting individual relationships with formal institutions; e.g., to limit speeding or combat fraud, society has developed a variety of sanctioning institutions. These monitor behavior and administer legally agreed upon sanctions for observed infractions. If the institution is ineffective in altering behavior, then - absent corruption - theory suggests two options: additional resources to monitor behavior or increase sanctions. Consequently, higher sanction levels may be more efficient if fewer resources must be devoted to monitoring-enforcement.

The experimental design examines these trade-offs to potentially inform public policy as to whether groups appear to always prefer efficiency, lower cost non-deterrent or higher cost institutions of deterrence. Experimental economics is uniquely capable of investigating the social formation of and behavior within formal institutions.



Update on IFREE Small Grants Research

- ⇒ Jason Dana’s “Reluctant Pro-Sociality” studies are reported in “Paying people to look at the consequences of their actions,” invited for revise-resubmit at *Management Science*, a top field journal.
- ⇒ Beth Milam and Alex Brown’s “Small Victories: Examining Market-Driven Solutions in Savings and Debt Reduction Experiments” results have been incorporated into “Small Victories: Creating Intrinsic Motivation in Savings and Debt Reduction,” presented at the North American Economic Science Association Meetings.
- ⇒ Catherine Weinberger’s “Dictator Game Generosity and Real World Outcomes” data is being analyzed. Samples of men’s and women’s generosity pre and post full-time employment are being compared; preliminary results suggest generous women are more likely to work with children and be in a supervisory or managerial position.
- ⇒ McCabe and Twieg’s “Specialization as a Coordination Mechanism: A Virtual Worlds Experiment” research has been utilized as a part of IFREE’s Summer Workshop, Virtual World Experiments in Economics, with high school students examining issues related to common resource problems. Preliminary results from this research were presented at the 2012 North-American ESA Conference.
- ⇒ Vercoe and Zak’s “Bubbles and Testosterone” project was the first to directly manipulate testosterone levels to test its impact on asset market trading. Experimental results indicate that testosterone administration increases the size of asset market bubbles. High testosterone males bought assets as prices rose and held them longer than unenhanced participants. Earnings were negatively correlated with levels of testosterone. Results show that testosterone administration causally increases asset bubbles.



I am a computer science major, not economics, but regardless learned quite a bit over the summer. I spent some time programming experiments, but also was a member of the reading and discussion groups, and worked with my fellows to refine ideas for potential experiments—a great experience—great, if for no other reason than getting to rub elbows with smart guys for six weeks. I cannot thank you enough for providing me and my fellow students the opportunity to take part in this program.

IFREE's 2013 High School Workshops were, as in past years composed primarily of students who had not previously taken any economics classes. The goal: to quicken their interest in economic essentials based in experimental involvement in market exchange, normal and extensive form game theory, collective action problems, and innovation. Many students have reported being uniquely prepared when they eventually take economics in high school or college, with a better grasp of economic thinking but also of behavior. For a second year, a session included a new ("Coase bargaining") hand-run experiment that allows students to negotiate efficient resource allocation decisions as a vehicle for addressing at greater depth public policy issues and the role of property rights in nature conservation. Learning economics should be transformative with lots of "aha" moments and counter-intuitive results. The high school workshops pack as many of these as possible into the five day program.

2013 GMU High School Workshop and Summer Scholars program (Kevin McCabe)

Incentivized economics experiments and learning experimental methods was the pedagogy employed. Students worked together in teams to design and program particular virtual projects. The summer scholars consisted of four summer interns and three graduate fellows, June-September, who assisted in the

high school student workshop. The four research projects were quite demanding and only two will be referenced:

Two Sided Matching Market Project: Matching

students to colleges and doctors to hospitals are two examples of resource allocation problems studied in market design by economists. Unlike typical market analysis, these may lack any concept of a market clearing price that adjusts until demand equals supply. Imagine matching a fixed quota of students to colleges each with a fixed quota of student slots where each

rank orders their preferences for the other. A simple form of this problem was solved in a famous paper (Gale and Shapley) that provided an algorithm for a stable matching of n women to n men based on their preferences. Experiments can address the question of how effective particular institutional matching procedures are in achieving stable or optimal allocations.

Real Estate (Housing Bubble) Project: This project was motivated by the Great Recession that began in 2008 as a consequence of the crash in the housing-mortgage market bubble, 1997-2006. Many laboratory experiments have demonstrated the ubiquity of asset trading bubbles, but none have addressed the creation of a virtual world housing-mortgage market experiment where subjects can invest or take out loans, buy or sell properties, and improve their land, motivated by final profit. In this environment hypotheses about policies—claimed as "causes" of the bubble and crash—can be evaluated based on how they affect incentives and bubble behavior: the tax deductibility of capital gains, credit availability, down payment requirements and debt default insurance. An excellent beginning was made in which this team provided an exceptional finished product.

Workshop and Conference, Center for Experimental Economics, Universidad Francisco Marroquín (UFM), Guatemala

In Latin America experimental research is relatively under represented, tending to be undertaken by scattered practitioners, with limited interaction between them. Despite considerable interest and growing scholarship, a tradition and organized community is still in its infancy.

In an effort to foster such a community, Diego Aycinena and Lucas Rentschler at Universidad Francisco Marroquín held a three-day workshop followed by a two-day conference in Antigua Guatemala in October of 2012. Funds were provided by IFREE and the Facultad de Ciencias Económicas at Universidad Francisco Marroquín.

The workshop was led by Dan Houser of George Mason University, who introduced basic concepts of experimental design, data analysis, and seminal contributions in the experimental literature. Workshop participants engaged in several basic economic experiments, and later studied the results and interpretation of the experimental findings. As part of the workshop, participants also developed and refined a design in their respective fields.

Participants Excited for Upcoming Program at Chapman

19th Visiting Graduate Student Workshop
January 7-11, 2014

This program will provide an introduction to laboratory methodology in Economics for Ph.D. students from around the world.





2122 E. Camino El Ganado
Tucson, AZ 85718

Build 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 contributors who bring life to the IFREE mission through their financial support of projects funded by IFREE.

IFREE, founded in 1997, is a public 501(c)(3), tax-deductible charitable foundation. Contributions made to IFREE can be provided as general support or directed to a specific research or outreach program. To learn more about the work of IFREE please contact us!

Your Support Makes a Difference!

Phone: (520) 991-0109 | csmith@ifreeweb.org
info@IFREEweb.org ✦ www.ifreeweb.org