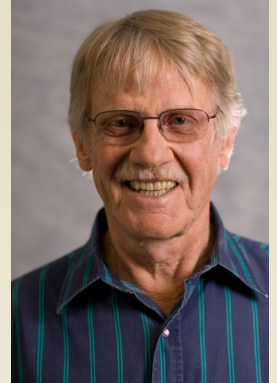


## President's Corner By Vernon L. Smith

I'm pleased to announce that this fall IFREE funded the first three Small Grants Program awards for research proposals up to \$10,000, which are briefly described elsewhere in this newsletter. The program is open to any research scholar affiliated with a university or research institution. The Proposal Evaluation Committee (PEC) evaluated each proposal's consistency with the IFREE Mission Statement, its quality, and potential importance as a contribution to the scientific understanding of economic behavior and institutions.

One of the BEST surprises coming out of IFREE-funded High School Workshops is the evolution of the summer Intern Program. It's mind-boggling how kids who 'just want more' can challenge professors to offer far more advanced work to these motivated individuals, which builds on the experience in the high school workshops. What has emerged is a learning community, and this is how it works: Small numbers of students from previous workshop classes apply to return in the summer for a six-week period. They assist in conducting lab experiments, testing new software under development, participating in daily group dialogue, anchored in readings from the classical liberal tradition and related laboratory experiments. As a summative project, these interns work on the design of new

experiments that explore the origin and development of property rights, markets and technology in economic development. They are part of faculty-student research teams that have published several influential articles in leading economics journals. The Intern Program's history includes many students who have continued into college and graduate programs, at GMU, UVA, MIT, LSE, UA.



The interns call part of their experience, "The Book Club." This year they read and discussed Matt Ridley's *The Rational Optimist*, Douglass North et al.'s *Violence and Social Orders*, Jesse Prinz's *The Emotional Construction of Morals*, and a selection of experimental economics papers dealing with game theory.

In this issue of the newsletter I am pleased to introduce Joy Buchanan, a recent participant in the Intern Program, now a student in Chapman's Masters Program. Joy will tell you about the Chapman parking auction that she helped design and implement with ESI faculty. *Happy Holidays and Best Wishes for the New Year... Vernon*



**Interns pictured from left to right:** Joy Buchanan, Chapman University; Matthew Simpson, Iowa State University; Alex Bogart, Tarbut V' Torab Jewish Community Day School; Pete Abbate, George Mason University; Michael Gamboa, UC Riverside; Matt McMabon, Chapman University

## The Real Live Chapman Parking Auction By Joy Buchanan, ESI Master's Student

*"If the University is an ivory tower, parking is its moat"*

Donald Shoup, UCLA

The Chapman community couldn't cope with change! We would never get the website up in time! There were many reasons why it seemed impossible to go from the old parking system to our innovative auction in a single summer. But, professors and students from the Economic Science Institute and the



## IFREE Spotlight

IFREE is pleased to announce selection of three Small Grants Program awards to research scholars at the University of Pennsylvania, Florida State University, and the Universidad Francisco Marroquin.



### RELUCTANT PRO-SOCIALITY

Jason Dana (Assistant Professor, Psychology, University of Pennsylvania)

**Summary:** This proposal extends work that shows that people will ignore free information about others' payoffs. 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. This work presents strong challenges to "social preference" models, and looks at the effects of paying choosers (Dictators, in this case) to look at (others') payoff information



### AN INVESTIGATION OF THE AVERAGE BID MECHANISM IN PROCUREMENT AUCTIONS

Wei-Shiun Chang (Pre-doc, Economics), and Timothy Salmon, (Associate Professor/Advisor, Economics, Florida State University)

**Summary:** Investigation of a bid mechanism in which buyers purchase from the seller who comes closest to the average price of the submitted bids is the subject of this proposal. The first part of this work is a theoretical development in which the researchers will analyze the mechanism under different assumptions (seller costs and quality). The second part is experimental work, which will test the predictions derived from this analysis in the lab.



### BIDDER BEHAVIOR AND PERFORMANCE OF AUCTION INSTITUTIONS WITH COSTLY PARTICIPATION

Diego Aycinena (Assistant Professor, Universidad Francisco Marroquin, Guatemala)

**Summary:** What would happen in an auction in which there is a cost of participation? One line of research investigates entry decisions into auctions, and tests the fit of a Pure Strategy Entry Equilibrium model based on a cutoff value. The second line compares first price sealed bid and ascending auctions, asking about entry under the two mechanisms. The third line investigates bidding behavior after entry decisions have been made. The studies vary the tasks subjects face. In one case, subjects are told the number of bidders and the cost of entry, and subjects are asked the (private) value they must have in order for them to choose to enter. In another set of treatments, subjects are given the number of bidders and their value, and asked the price below which they would enter.

## *"Lean and Mean" at IFREE*

Many contributors who donate to IFREE do so because they know the people who volunteer to make IFREE a smooth-running, efficiently targeted, and mission driven grant-making organization that does not pay IFREE administrative salaries, nor individual researchers for project work. IFREE's impact is out of proportion to its administrative size, which means that IFREE contributors can count on their dollars going directly towards research grants, high school and graduate student workshops, intern program, speaker series, and pre and post doc support.

IFREE welcomes your continuation of support!

Your interest is appreciated in these difficult economic times.

## IFREE Board of Directors Talk About Service

**What is it about IFREE that makes service compelling? Why do you volunteer?**

*"...IFREE promotes a methodology which helps determine the validity of economic theories....I serve almost entirely out of regard for people involved, especially Vernon....appreciate the people I've come to know through IFREE-sponsored activities....appreciate the encouragement of research interests out of the mainstream....it's about reciprocity, as IFREE made it possible to continue my advanced education, and thus career....the scientific importance of the IFREE Mission....gratitude for the opportunity to give back to this organization....a chance to acknowledge and encourage others' work outside of mainstream economics....intrigued, charmed by being associated with Vernon and colleagues....scope and implications of experimental economics....seeing evidence that ideas have consequences....understanding the value of the experimental economics and being a part of its promotion in academia....the analytical rigor, philosophical foundations and inter-disciplinary applications....95% of donor dollars go for projects....seeing changes in teaching at ALL levels....collaboration and fun!"*

**Thank you Tucker Andersen, David Dreman, Rob Gasaway, Rob Kurzban, Jim Murphy, Vernon Smith, for all that you do in volunteering and contributing to IFREE's success as an organization dedicated to changing the way we think about economics.**

*- Candace Smith, volunteer, Vice President*

newly formed parking committee made it happen.

Year in and year out, faculty, staff and students at universities consistently rank parking a major problem in annual surveys. Chapman University is no exception. Universities have tried almost every possible way to deal with the shortage of campus parking: lotteries, hunting licenses, first-come-first-served, waiting lists, seniority, need-based, etc., with little success. Chapman University president, Jim Doti, contacted Economic Science Institute scholars David Porter and Stephen Rassenti to see if they could help in “solving” the parking problem.

Professors Porter and Rassenti examined the parking data at Chapman and found that while there was enough parking even at peak times, it was convenient parking (on campus parking) that was in demand at Chapman. A direct way of solving this problem would be to construct more parking on campus, but this is an expensive proposition. Underground parking costs \$25,000 – \$30,000 per parking stall to construct. It seemed obvious that a market price for convenient parking needed to be established. How could this be accomplished?

We designed an online descending-price auction that would allow members of the Chapman community who commute to pay an additional fee for the privilege of parking in the preferred parking spots during peak hours. This will cut down on searching time for everyone, and assign the closest parking spots to the people who value them most.

Why not just set an arbitrary price for convenient parking? Because we do not know what the price should be! There are a fixed number of close spots and we did not want to either:

1. overcharge, if very few people care enough about close spots to pay a little extra
2. charge too little; if the price is too low then there would be “too much” demand and we would have to turn away commuters who want a close spot at a low price.

An auction is a way to discover the perfect price in theory, so we put it into practice. A traditional ascending price auction would have been inconvenient because all interested commuters would have had to register and then drop out as the price rose. That is why we implemented the descending price mechanism so that people could join the auction as the price was

lowered.

This is easier to sketch out on a whiteboard than to actually implement! However, we jumped at this chance to put a market mechanism design solution into action. There were practical needs like installing sensors at the entrance of each parking lot and distributing transponders for every vehicle. Also, there was the task of informing the community. There were a few people who did not support our efforts to change the system, in part because they did not understand it. We informed the community through our website and through holding town-hall meetings so that people could voice their concerns and get questions answered.

Ultimately, we were able to hold one of the first-ever parking auctions in the Fall of 2009. Researchers at ESI carefully analyzed the data we gathered on parking behavior in order to make further recommendations to improve the system. The auction is now in its second year of operation. Because of our example demonstrating how experimental economics is useful in answering real-world allocation questions, other universities are now considering implementing parking allocation auctions.

Learning by doing has been my experience as a student at ESI. I was fully included in project planning meetings and in designing the communication plan. My master’s thesis is about how the information we give participants in an auction similar to the parking mechanism affects bidding and efficiency. Working on the parking auction is just one of the great opportunities that I have had working with experimental economists. Ever since I took my first class with Vernon Smith and Bart Wilson, I have been able to pursue my interest in economics and get hands-on experience alongside top researchers. In addition to my regular classes, I have participated twice in the IFREE-supported summer intern program. Your contributions have made a huge impact on my education, and I speak for all the students here when I say thank you!

**IFREE will sponsor its 16th Graduate Student Workshop in Experimental economics at Chapman University**

**January 10-14, 2011!**



International Foundation for Research in Experimental Economics

*International Foundation for  
Research in Experimental Economics  
2122 E. Camino El Ganado  
Tucson, AZ 85718*

## 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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