



International Foundation for Research in Experimental Economics

Spring 2010

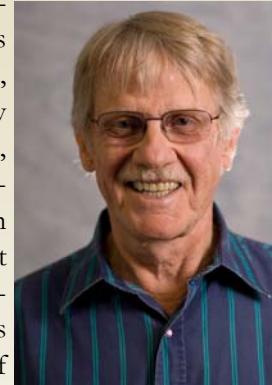
President's Corner By Vernon L. Smith

Candace and I recently attended the wedding of former student and friend, Richard Lee, and his bride Anna in Shanghai. Richard is an IFREEE supporter and former member of the IFREEE Board of Directors. In the 1980's, he came to the University of Arizona as a graduate student in experimental economics from Peking University. Being a top student, it was not hard for Richard to find an academic appointment at Gettysburg College in Gettysburg, PA. After a year, Richard confided that he wanted to try a business venture, which as we recently learned, was based on an idea that had spawned when he was a youngster during the time his parents were 'assigned' to a rural area during the Cultural Revolution. What Richard had on his mind was the possibility of disposable medical devices. It was a difficult undertaking starting from scratch in 1993, but Richard has excelled as an entrepreneur in creating the Amsino Group, an international company that designs, tests and manufactures disposable medical devices that are exported worldwide. For more information see: <http://www.amsino.com/contact/bylocations.html>) It was a proud moment to sit in an audience of over 300 people from China and the U.S. who have the highest regard for Richard.

While in Shanghai, I met and spoke with several student and faculty groups at Danfu University and Shanghai Jiao Tong University. SJTU is the home of a leading Chinese experimental economics laboratory which is directed by Xiangdong Qin. Former IFREEE-sponsored GMU graduate student, Mun Chui, is now serving as an Assistant Professor in experimental economics at SJTU.

A few days before we left for China, IFREEE, along

with Reason Foundation and Chapman University, sponsored a luncheon discussion, "Experimental Economics and Economic Policy." It was the first time IFREEE has funded a discussion of this type, which involved experimentalists at Chapman's Economic Science Institute (ESI), policy makers, including former New Mexico Governor Gary Johnson, Chapman senior faculty and administration, and Reason Foundation staff, including David Nott, President of Reason, who moderated the discussion. Feedback from participants was encouraging in consideration of future discussions that promote extended discussion of experimental economics research applications to policy.



One of the most important ideas discussed was that experiments are intended to enable a fuller understanding of the performance and behavioral properties of particular institutions and markets. Once understanding is obtained, it is possible to study the effect of particular policies. It is not assumed that we can start with the question, "What is good policy?" and as one person said, "then reason through to specific policy, or try to design experiments that prove what we start out thinking, or what a policy maker might want us to prove." Rather, the experimental economics approach promotes learning and discovery, and often leads to fresh thinking about the framework for policy discussion.

Thank you for your continuing interest in IFREEE!....
Vernon...

Exploring Frontier Economics in Alaska By Kyle Hampton

Over the years, IFREEE has had a big influence on my education and my career. My newest position is Director of the Alaska Center for Economic Education, and Assistant Professor, at the University of Alaska Anchorage.

I came to Alaska because I want to do "frontier economics." Alaska is a resource-centered economy, one deeply

invested in the growth of international trade and the emergence of developing economies. In many ways, the economic and political decisions of Alaskans have a disproportionate resonance over the rest of the planet.

Alaskans are stewards of incredible natural wealth - and not just in the form simplest to exploit. Along with salmon,



IFREE Spotlight

- **IFREE is on Facebook!** Search for us under the International Foundation for Research in Experimental Economics (IFREE) group and connect with IFREE supporters all over the world.
- On **February 26**, Vernon received the "Annual Award for the Contribution to the Proliferation of Liberal Thinking and the Ideas of Liberty, Private Property, Competition and the Rule of Law" from the Liberalni Institute in Prague in the Czech Republic. Vernon's lecture, "Mortgage Market Bubbles that Engulf Economies, 1997-2009; 1920-1932" was heard by over 300 people at the Czech National Bank conference center. Vernon visited the new Laboratory of Experimental Economics, established at the University of Economics in Prague by economist and Lab Director Miroslav Zajicek, who is a past attendee of an IFREE-sponsored international graduate student workshop. Miroslav also arranged for Vernon to lead a student seminar at the Center for Economic Research and Graduate Education Economics Institute on "Exchange, Specialization and Property Rights as a Joint Discovery Process."
- **Dr. Bart Wilson** of Chapman University, **with Dr. Artie Zillante** at UNC Charlotte, published "More Information, More Ripoffs: Experiments with Public and Private Information in Markets with Asymmetric Information," as the lead article in the *Review of Industrial Organization's* February issue. Models of markets for used cars predict that sellers can pawn off lemons on trusting buyers. However, in a laboratory experiment Profs. Wilson and Zillante find stark evidence that sellers cannot pawn off lemons on buyers when transaction prices are private. Only when transaction prices are public can owners of lemons successfully masquerade as sellers of high quality goods. Artie is a former IFREE-assisted post doc at GMU.
- **Experimental economics luncheon discussion:** Funded by a grant from IFREE and co-hosted by Reason Foundation and Chapman University, a lively luncheon discussion, "Experimental Economics and Economic Policy," was held Tuesday, Feb. 2 at Chapman University. Guests included associates of Chapman's ESI, the Argyros School of Business and Economics, Chapman administration, senior staff at the Reason Foundation, a visitor from Harvard and also visitors who have served in political office. The discussion centered loosely around the broad question, "What is the relationship between experimental economics and economic policy?" and concerned how experimental economists approach problems which may or may not eventually have policy implications. Good policy questions have to be precisely formulated, and this requires the design of a framework for studying the particular industry involved. Only then can you ask specific policy questions and get coherent answers. For example, given an experimental framework that captures the competitive performance of the retail and wholesale markets for gasoline, the question can be asked "What are the effects on consumers, retailers and wholesalers of requiring wholesalers to charge the same price independent of retailer location?" Or, "What would be the effect if retail and wholesale were not divorced?". For further information please see <http://chapmannews.wordpress.com/2010/02/08/experimental-economics-lunch-sparks-lively-discussion/>



- On **Jan. 5-9th**, the Economic Science Institute, with a grant from IFREE, hosted 23 Doctoral students from universities all over the world for the Fifteenth Graduate Student Workshop in Experimental Economics. Presentations from Professors Bart Wilson, David Porter, John Dickhaut, Steven Gjerstad, Vernon Smith, Nathaniel Wilcox, Matthew McCarter, Timothy Shields, Roman Sheremeta and Kevin McCabe received great reviews from participants. Topics included Information Release in Markets, Asset Market Bubbles and Financial Crises, Experimental/Econometric Measurement of Preferences, Creating and Claiming Value in Negotiations and Personal Exchange, among others.

Exploring Frontier Economics in Alaska (Continued)

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Student's at University of Anchorage Alaska workshop gather around a laptop to examine an experiment.

oil, coal, timber, and minerals, Alaska is home to some of the wildest beauty on earth. The delicate and difficult balancing act this entails is at the heart of frontier economics and constitutes an economic dialogue in which I cannot wait to participate.

As ACEE Director, I am inheriting a great organization dedicated to providing Alaskans the economic understanding they need to participate in this state's development. The Center is supported by both the University of Alaska Anchorage and the Alaska Council for Economic Education, along with corporate underwriting from several companies and organizations that call Alaska home. Some of the projects we support include:

- Training programs for K-12 teachers interested in teaching economics classes or integrating economic principles into other classes they teach.
- Distribution of curriculum materials to aid economics teachers around the state.
- Exciting programs for economic students to interact with others around the state including the Stock Market Game, summer workshops for students gifted in economics, and the "Economics Challenge," a quiz show for fifth and sixth graders to demonstrate their knowledge of economic concepts.
- The development of state and local curriculum standards that incorporate economic modules and courses.

With this collection of great projects and a well-connected network of motivated and talented educators, lies even greater potential. I am a big believer in the power of experiments to illuminate topics and excite students. The ACEE is dedicated to spreading the use of economic experiments to classroom throughout the state.

I was first exposed to the educational potential of experiments when I assisted Bart Wilson in running the IFREE-funded Vernon L. Smith High School Workshops in Experimental Economics as a graduate student at the University of Arizona. The workshops have evolved each year

since then and have been an inspiration for hundreds of participants and the impetus for several of them to pursue a career in the discipline. This past summer, for the first time, I took over the role of Director of the IFREE-sponsored workshops. Despite the passage of many years, I still get goose bumps watching ideas come to life for students who are engaging economics in a hands-on way.

A major goal for the ACEE is deploying experimental economics software and know-how to educators all over the state so that Alaska might serve as a large-scale demonstration of the important role experiments can serve in teaching economics. A perfect goal for a frontier state: experimenting with experiments.

None of this would be possible without the people who support IFREE. I am grateful to those who earmark their contributions for education and outreach support. Software, lesson plans, and learning modules that were created for a single one-week workshop years ago have spread around the country and are evolving to form the basis for an entirely new way students are exposed to economic ideas.

Besides attendance and teaching participation at several IFREE-sponsored workshops I also benefitted from IFREE pre-doctoral support as a graduate student at George Mason University. IFREE has thus played an indirect, but pivotal role in the development of a world class center for experimental economic research and economic education here in the last frontier.

IFREE was an early supporter of the UAA Experimental Economics program. A \$20,000 grant in 2006 made to the economics program in the college of business and public policy helped the program get started. The funds provided student assistants and participant payments that allowed the faculty new to the experimental approach to learn by 'just doing it' as Vernon has suggested. Valuable lessons were learned about designing and conducting experiments. Since that time the program has grown, hiring three experimentalists, attracting external as well as university funding, and publishing research results. IFREE's early support provided a foundation for the growth of the UAA program. More can be learned about the UAA experimental program at <http://econlab.uaa.alaska.edu/>. – Lee Huskey, Department of Economics, UAA.

IFREE wants to keep you informed! Please email info@ifreeweb.org with your preferred contact information.

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International Foundation for Research in Experimental Economics

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Research in Experimental Economics**
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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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