

President's Corner By Vernon L. Smith

*In this issue I'm handing the President's Corner spot over to **Rob Gasaway, IFREE Chairman of the Board**, who has an IFREE Overview for the IFREE community and newsletter readers...Vernon...*

WHAT WE DO: Taking inspiration and guidance from Vernon Smith, we strive to educate individuals and to introduce them to one another based on their common interest in and respect for rigorously analytical and empirical approaches to economic problems and economic science. Our aim is to promote ideas/activities that touch people throughout their educational adulthood, from high school onward.

We aim to introduce people both to theory and practice, often introducing them to theory through practice.

We aim to introduce people to one another by talking about IFREE.

HOW WE DO IT? We want to engage and involve individuals by letting them know about IFREE's capacity to encourage others throughout their educational lifetimes by sponsoring: high school workshops, undergraduate and graduate workshops, pre and post-

doctoral fellowships, small-size research grants (targets young scholars), larger-size research grants, and public policy workshops.

WHERE WE DO IT? The Chapman Economic Science Institute (ESI) is Vernon Smith's professional home. He is committed to Chapman/ESI, and to building them into model institutions of higher learning.

Through IFREE, Vernon is equally committed to building a reservoir of economics talent and learning, and a network of relationships between these individuals. It is inherent in IFREE's mission that, while Chapman/ESI are essential outlets for IFREE's mission activities, the vision of IFREE is international.

All IFREE-funded activities are targeted at and serve researchers and scholars at many universities which host the education, research and outreach events.

WHY WE DO IT? We love the intellectual challenge and practical importance of this work and invite others who feel likewise to join us in supporting it.



China Research Center Update



Vernon Smith and Xiangdong Qin, Associate Professor and Assistant Dean of the School of Economics, Antai College of Economics and Management

In 2004, Vernon Smith helped to establish the **first laboratory for experimental economics in China**: the Shanghai Jiao Tong University Smith Experi-

mental Economics Research Center. With the generous help from IFREE, Vernon and his colleagues conducted the first Experimental Economics Workshop in 2005 in Shanghai. Many young Chinese economists learned their first lesson of experimental economics from the workshop, and experimental economics has subsequently become one of the focus areas of the economics program at Shanghai Jiao Tong University. Vernon has visited Shanghai Jiao Tong University three times. His enthusiasm and encouragement have nurtured the development of the experi-

mental economics program in China, and in particular at Shanghai Jiao Tong University. Students from the program have been accepted in leading graduate programs in U.S. universities such as George Mason University, University of Arizona, Stanford University, Duke University, New York University, Michigan University, University of California at Riverside, etc. Visit www.ifreeweb.org for papers in experimental economics published by faculty members at Shanghai Jiao Tong University.

Grant Actuates Research

Through a generous grant to IFREE by **Frederick Gardner Cottrell Foundation**, two IFREE-sponsored research projects are under way:

1. Dual Tracking System experimental economics research is moving forward. In a DT System, patients and doctors can either choose an FDA approved drug or a non-approved drug. Their decision would be based on a Tradeoff Evaluation Database (TED), which is a central repository of drug efficacy information generated by recording each person's experience with each drug.



★ **Statement of Appreciation:** Thanks to the **Thomas W. Smith Foundation**, the **Frederick Gardner Cottrell Foundation**, and the **Pierre F & Enid Goodrich Foundation** for the generosity which makes it possible for IFREE to advance the understanding of exchange systems and the testing and application of market-based institutions.

Small Grant Awards Announced This Spring

BUBBLES and TESTOSTERONE

Moana Vercoe, post-doctoral fellow at the Center for Neuroeconomics Studies;

Paul J. Zak, Founding Director of the Center for Neuroeconomics Studies and Professor of Economics, Psychology and Management, Claremont Graduate University

The vast majority of trades on the NYST are made by male institutional traders. In part this research has been designed to study the role testosterone might play in asset market bubbles, the kind of bubbles for which the sources are not clearly understood. This study combines elements of two studies previously conducted at the Center for Neuroeconomics Studies: one examining the role of testosterone in decision making in the trust, ultimatum and dictator games, and the other based on an experimental asset. It aims to test the effects of testosterone on the formation of asset bubbles (deviations from fundamental price) in a laboratory asset trading experiment. This study will be the first to directly manipulate testosterone levels in males and to relate this causally to asset prices, and may shed light in determining how testosterone influences risk taking and confidence in individuals.

POOLING IN AUCTIONS WITH RESALE: EVIDENCE FROM THE LAB AND FIELD

Michael K. Price, Department of Economics, University of Tennessee;

Robert Hammond, Department of Economics, North Carolina State University

Investigators use an auction structure, and vary parameters of the auction to investigate a question from the real world relating to issues in land auctions conducted by the Nevada Bureau of Land Management (BLM) that in some auctions a number of bidders “pool” at the reserve price. The design varies three independent variables, the key one being whether or not there is the possibility of exchanging the objects on which people bid in a second phase. The other two independent variables are parameters (the reserve price, range of bidders’ values). The proposed research will use the institutional details of BLM auctions to design a series of laboratory experiments aimed at isolating the effect of resale opportunities on pooling at the reserve price. The laboratory setting will allow researchers to control key parameters – i.e., the distribution of values and associated reserve prices – that should theoretically influence pooling at the reserve price.

SPECIALIZATION AS A COORDINATION MECHANISM: A VIRTUAL WORLDS EXPERIMENT

Peter Twieg, graduate student in economics working with Professor Kevin McCabe,

Kevin McCabe, Director of the Center for the Study of Neuroeconomics, GMU.

This projects investigates specialization using “Second Life,” a virtual environment that allows unstructured interaction. It seeks to explore the possibility that the potential to specialize might carry more subtle benefits such as the creation of focal points which serve to facilitate the establishment of informal property norms in environments without secure property-rights regimes. A confirmation of the main hypothesis of this experiment should have implications that can be tested against historical data, which could perhaps provide some truly valuable insight into historical patterns of institutional development, and may serve to advance our understanding of the factors underlying the historical establishment of property rights in different real-world communities.



Peter DeScioli and co-authors, want to acknowledge IFREE's partial funding for research leading to publications showing that people are more inclined to lie, cheat, steal, etc. by omission (doing nothing) than by commission (acting).

1.) In the first paper, the indication is that people use omissions strategically to avoid punishment.

DeScioli, P., Christner, J., & Kurzban, R. (2011). "The omission strategy". Psychological Science, 22, 442-446.
<http://pdescioli.com/descioli.etal.omission.ps11.pdf>

2.) In the second paper, the researchers find support for the theory that people judge others' omissions less harshly than others' commissions because commissions provide stronger evidence of wrongdoing. Evidence is important because it allows people to coordinate their condemnation decisions with others.

DeScioli, P., Bruening, R., & Kurzban, R. (2011). "The omission effect in moral cognition: Toward a functional explanation". Evolution and Human Behavior, 32, 204-215. <http://pdescioli.com/descioli.etal.omission.ehb11.pdf>

To test Dual Tracking in the lab, researchers Dan Houser, Stephen Rassenti, Lance Clifner, and Will McBride designed a computerized healthcare system built around the idea of a TED. Their hypotheses are that Dual Tracking results in 1) increased selection of non-approved drugs and thus, via TED, more publicly available information about those drugs, and 2) increases in survival, health, and earnings. Generally, they have found evidence to support both hypotheses. Their results provide laboratory evidence that real gains can be had when consumers are given greater access to non-FDA-approved drugs.

2. The combinatorial auction research has had a breakthrough, as reported by Stephen Rassenti, Economic Science Institute, Chapman University. He states, “A combinatorial auction is a process that can be implemented when multiple resources must be simultaneously allocated amongst competing users, and when information concerning the values of the various possible uses and the constraints impinging upon those uses is unknown to the central decision maker(s). With the help of the grant from IFREE we have delved into the world of agent based modeling to get some answers concerning combo auctions.

Because of their complexity, combo auctions are normally run in a sequence of multiple rounds that allow bidders to update their multi-item bids as the individual prices for different items in the auction rise non-uniformly. *But on which items should the auctioneer raise the price and by how much?* Not an easy question to answer and the same answer doesn't apply in all situations, but our first study indicates that it is a bad idea to raise the prices on many related items simultaneously: typically, 30% is good. Furthermore, it seems the price increments should be fixed and not be adjusted in proportion to announced prices. *Why should you run an ascending price auction at all?* Using descending prices we can now generate more efficient allocations requiring shorter auction times in our agent based simulations.

In the next phase of our IFREE research, we will program an interactive auction interface and bring this combo auction innovation into the laboratory to be tested by cash motivated human subjects.”

Workshops in the News

The first “Economics in the Metaverse” High School Workshop (July 25-29, 2011), and the “Summer Internship Program” (mid-June through late August) will be held at the Center for the Study of Neuroeconomics at GMU this summer. See <http://www.kevinmccabe.net/ifree/> for more information. The practical philosophy of these programs is that students of all ages, with the right skills and interests, can be involved in collaborative research using virtual world experiments to study interesting economics problems. The program goals are to motivate high school and undergraduate students with strong STEM (Science, Technology, Engineering and Mathematics) backgrounds to continue to develop their talents for scientific inquiry and to direct some of their interests towards experimental economics.

The University of Alaska Anchorage Economics Department will host a 2-day “UAA Incoming Undergraduate Student Workshop” targeted towards new students who are about to begin their first semester at the university in August. The goals of the workshop are to expose more UAA students to economics, recruit more students to major in economics or take economics courses, promote the experimental economics program, and to make students aware of the undergraduate research opportunities within the economics department.

Be sure to check out the Vernon L. Smith High School Workshops and the Summer Scholars Program at Chapman University this summer, both of which have been generously funded by a grant to IFREE from the Thomas W. Smith Foundation. Also, registration for the 17th Graduate Student Workshop in Experimental Economics at Chapman University to be held in January 2012 will open in August. See ‘Education and Outreach’ at www.ifreeweb.org.

IFREE supports educational programs for high school, undergraduate and international graduate students that are anchored in the discovery of socio-economic principles gleaned from learning by doing. Through interactive experiments, participants explore both the theory and its practical applications of the visible good afforded by personal social exchange and the invisible good generated by impersonal market exchange.

Thank you—your support makes these exciting advancements possible!

www.ifreeweb.org



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.

IFREE, founded in 1997, is a 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, current and future projects, obtain an annual report, or to provide support please contact:

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

Telephone: (520) 991-0109 | Fax: (520) 529-2768