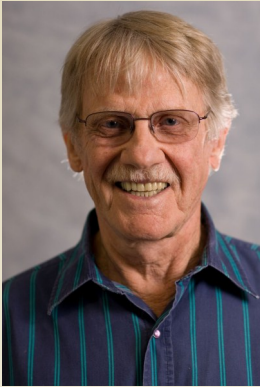


## President's Corner By Vernon L. Smith



"Beneficence is always free, it cannot be extorted by force...The man who does not recompense his benefactor,...is...guilty of the blackest ingratitude." This wisdom of Adam Smith from the *Theory of Moral Sentiments* reminds me of the well-springs of your support and my duty in reporting back to you on the activities you have made possible.

I am indeed grateful that people want to contribute to IFREE's style of making change in education and research.

Here is an example of how that support has been leveraged by other institutions that are inspired by our demonstration approach to understanding social and market exchange systems. In 2009 IFREE sponsored a first-time International Workshop in Experimental Economics at the ISM University of Management and Economics in Lithuania. In January this year, Bart Wilson (ESI/Chapman) and Rim Baltaduonis (Department of Economics/Gettysburg College) taught a second workshop in Lith-

uania, this time at the oldest and largest university in Lithuania - Vilnius University. Erika Vainiene, who was a participant in IFREE's first Lithuanian workshop and who teaches at Vilnius University, put together a proposal and received a grant from the European Union to *fully fund* a workshop similar to the one IFREE sponsored. The primary purpose of the grant was to enable the redesign of the content and delivery of undergraduate economics at Vilnius University, whose faculty members and Ph.D students were eligible to participate along with four "seasoned graduates" of IFREE's 2009 workshop.

When Rim and Bart were in Lithuania, they met with ISM University personnel and confirmed that Alvydas Vitkauskas, an IFREE-workshop graduate, will be teaching an experimental economics class, and is looking to model a future lab after the one set up in Prague by Mark Zajicek, another workshop graduate, at the University of Economics in the Czech Republic. And so the work of IFREE grows by contagion!...**Vernon**....

### Virtual World Research Program Bridges Classroom and Lab to the Natural World

IFREE Distinguished Scholar Kevin McCabe and his students at the Center for the Study of Neuroeconomics (CSN) are using the virtual world of Second Life™ to establish a research program that uses virtual worlds as a platform for teaching economics and running economics experiments. The teaching goal is to use the immersive nature of virtual worlds to involve students in a collaborative exploration of economics concepts. The research goal is to use the persistent nature of virtual worlds to study the emergence of cultural norms and institutional formation in the infinite space of natural language messages. In McCabe's view virtual worlds are a bridge from the classroom, or laboratory, to the natural world.



**Professor McCabe looks on as students work in a virtual world environment**

The research program began with the financial assistance, in part from IFREE, and the purchase of Terraeconomicus -- a virtual region inside the computer network of Second Life. Many skills had to be learned. For example, how to control your avatar inside the virtual world; how to manage your island, including environmental settings, user permissions, and finite computer resource issues; how to terraform your region to give it the look and feel of a geographic space; how to mold, texture, and combine prims into in-world ob-



# IFREE Spotlight



## ★ Second Round of IFREE Small Grant Awards Announced

IFREE is pleased to announce selection of two Small Grants Program awards to research scholars at Texas A & M University and the Institute for Social, Behavioral and Economic Research, University of California, Santa Barbara:

***SMALL VICTORIES: EXAMINING MARKET-DRIVEN SOLUTIONS IN SAVINGS AND DEBT REDUCTION EXPERIMENTS:*** Alexander L. Brown (Department of Economics, Texas A&M University) and Joanna Lahey (Bush School of Government and Public Service, Texas A&M University)

**Summary:** This project is concerned with individuals' savings decisions, specifically aimed at "suboptimal savings behavior;" that is, people who do not save "enough." The phrase, "small victories," refers to the idea that motivation to defer consumption can be enhanced by first successfully doing something small. To investigate this, subjects are faced with a set of unpleasant tasks, and in some cases, the tasks get larger if they are left uncompleted (simulating interest on debt). Do people choose to complete a small unpleasant task first—winning a "small victory"—and then work on the larger unpleasant task? Does ordering tasks in this way improve overall performance? This project has the potential for valuable insights.

***DICTATOR GAME GENEROSITY AND REAL WORLD LABOR MARKET OUTCOMES: THIRD WAVE OF A LONGITUDINAL STUDY:*** Catherine J. Weinberger (Independent Scholar affiliated with the University of CA Santa Barbara, Department of Economics, and ISBER)

**Summary:** In 2002, more than 1,800 students played a dictator game in which the Receiver was a charity. The researchers intend to relate behavior in this game to labor market outcomes. For instance, do people who play generously in a dictator game wind up with lower paying jobs? This grant will provide funding to run a wave of surveys to gather employment information, including educational attainment, salary, and job sector information. The project is an interesting attempt to link laboratory game behavior to outcomes in the real world

## ★ IFREE Graduate Student Workshop Exceeds Expectations

The 16<sup>th</sup> IFREE Visiting Graduate Student Workshop in Experimental Economics was held at ESI at Chapman University January 11-14. Evaluations revealed a variety of reasons the 24 students decided to attend the workshop, with 22 of 24 rating their satisfaction with the workshop a top rating of "Excellent", 2 "Good." Nine experimental economists, cognitive psychologists, and a neuroeconomist met the goal of providing an introduction to laboratory methods in economics for students from around the world. The group participated in experiments for monetary rewards followed by a presentation of research results related to the experiment. Participants also had the opportunity to present their current research.

## ★ Recent Publications

**GMU Economics Department Chair, Experimentalist Dan Houser and Carnegie Mellon Assistant Professor and former IFREE Supported GMU Graduate student, Erte Ziao, publish in 2011; Research funding by IFREE.** Houser, Dan and Erte Xiao, "Classification of Natural Language Messages using a Coordination Game." *Experimental Economics*. 14:1, pp 1-14 (lead article), and (2011) Houser, Dan and Erte Xiao, "Punish in Public." *Journal of Public Economics* (Forthcoming).

**Former IFREE pre-doc, Peter DeScioli and co-authors Kurzban, R., Koch, E. N., & Liben-Nowell, D., have published "Best friends: Alliances, friend ranking, and the MySpace Social Network,"** in *Perspectives on Psychological Science*. 6, 6-8, which features a study in which over 10 million people's friendship decisions from MySpace are used to test predictions made by hypotheses about human friendship. The researchers found particular support for the Alliance hypothesis, which holds that human friendship is caused by cognitive systems that function to create alliances critical to potential disputes.

## Coming soon...

### FORMER IFREE WORKSHOP ALUMNI: Where are you now?

Has your IFREE-sponsored workshop experience influenced your research, career, or lifestyle?

★ IFREE invites you to become a part of the evolving IFREE Workshop Alum Voluntary Data Base. ★

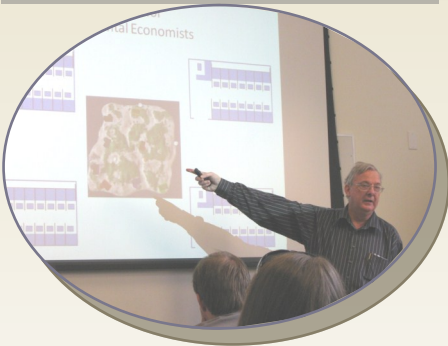
If you have attended one or more IFREE Graduate, High School, or Intern Programs, and would like to have a presence on our website, IFREE will soon provide a link at [ifreeweb.org](http://ifreeweb.org) to do so!

## Virtual World Research Program Bridges Classroom, Lab to the Natural World (Continued)

jects; how to program scripts to give objects different behaviors; and finally, how to modify the open-source user interface to improve better experimenter control.

From 2006-2009, McCabe, graduate students and CNS interns worked on special programming, then designed and built an undergraduate course to be taught entirely on Terraeconomicus. The course, titled, 'Economics of the Metaverse', was first taught in the Spring of 2009, and continues to undergo continuous improvement. After the first virtual world experiments were designed, the project moved towards the building of two research islands. On Hurricane Island they have been studying Elinor Ostrom's principles for the effective management of a commons. On Trade Island they have implemented the long distance trading experiment designed by Bart Wilson, Erik O. Kimbrough and Vernon Smith (AER 2008) to further study the effect of

### McCabe opens new worlds for students



property rights on exchange. Also, in 2009, experiments were conducted in the CSN laboratory.

Many lessons are being learned from these early experiments, including the need to develop expertise in natural

language processing, which is underway. McCabe and group are now using Amazon Mechanical Turk to enlist human intelligence in classifying the conversations between subjects before, during, and after their decision making in Second Life.

A second lesson was the importance of developing the ability to teach and employ undergraduates skills necessary to program in Second Life. As a result of bringing in more summer interns, the Center was able to build a number of objects on Terraeconomicus including a Double Auction which was used in the Economics of the Metaverse course.

A third lesson was the need to develop a more robust virtual world platform for experimentation. In 2010 the group began development of an OpenSim (an open source virtual world package) server on ReactionGrid (a virtual world hosting company) that gives them full control over the server including the ability to remote desktop into the server and save and restore virtual islands with a single

OpenSim command. This together with the ability to modify the code in open source client viewers, such as the Hippo virtual world viewer, will eventually allow McCabe's group to recruit subjects on Mechanical Turk, monitor them during their participation in a reaction grid experiment, and pay them using PayPal or Amazon. This new technology will allow collaboration with universities around the world in designing, running, and analyzing virtual world experiments. - *Kevin McCabe is Professor of Economics, Law, and Neuroscience at George Mason University*

## Experimental Economists, Neuroeconomists, and Behavioral Economists Can Learn From Virtual World Platforms: A Quote from Kevin McCabe...

"A virtual world experiment allows economists to study economic behavior where the message spaces of institutions interact with the natural language capacity of humans and where the complexity of human interaction can be studied in a more naturally immersive economic environment. For behavioral economists this means that decision rules must be understood as emerging from the natural human proclivity to make sense of a complex world. For experimental economists this means that institutional rules must be understood as emerging from human attempts to discover ecologically rational ways to more efficiently work with one another. For neuroeconomists this means that neural computations must be understood as having evolved to allow humans with relatively small attention capacities to deal with highly complex informational and social environments. To understand economies from this perspective will require new collaborations, new experimental methods, new tools, and new theories that will keep economics research exciting."

See more at <http://ifreeweb.org/WhatWeDo/files/IFREEDistinguishedScholarMcCabe.pdf>

*Thank you for your continued support!*

[www.ifreeweb.org](http://www.ifreeweb.org)



International Foundation for 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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