

Experimental economics summary paper



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Experimental Economics Economics is a category of social science that comprises of production, distribution and consumption of goods and the management of the social economy on a whole. Most researches and analysis in economics are solely based on the concept that the subjects have consistent rational choices with well-defined preferences, at par with the industry preferences. The author has tried to analyse the various aspects of experimental economics and the factors that determine the successes or the failures of such experiments. There are some pre-conceived notions when treating humans as subjects to such experiments, that humans are rational while being selfish. These aspects tend to be the deciding factors as to when and why humans cooperate or they don't. The author has used the single trial public goods and the multiple trial experiments to analyse human behaviour and how that affects the economy to a certain extent. In case of the former, it was found that the players could be segregated in two categories- 1: strong free riders, who did not want to contribute anything to the economy 2: weak free riders, who may or may not contribute towards public good and just want to enjoy the benefits (Dawes & Thaler, 1988) In case of the latter, it was found that more the subjects were put through repetitive experiments, the lesser cooperative they grew and even lesser they contributed towards public good. However, both cannot be considered as precise predictions or concrete results to any research. The other theory that has been highlighted by the author is that of reciprocal altruism being a major factor in deciding the contribution level. It has been observed through experiments that humans tend to cooperate more when there is expectation that the same will be reciprocated. However, this theory has its own drawbacks. Studies proved that the contribution and the cooperation level

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comes down when the subject realises that he is not being benefitted from the other person and also when the subject is pitted against a stranger. Over a decade of research, it has been established that humans practice pure and impure altruism which in turn plays an important role in determining the contribution levels towards people goods. Pure altruism is when one is happy with other's happiness genuinely or is involved in the act of cooperation in itself rather than in its fruits. Pure altruism is a rarity as humans are often consumed by greed, selfishness and self-centric attitude. In a detailed experiment to analyse the motives of free riding, the factors identified were greed and fear. Greed for more income and less contribution was seen as one prime reason for high free riding while fear of the possibility that the subject contributes while others may not was another factor. In an attempt to resolve these, an interesting experiment was carried out where a group of strangers were given a certain amount of money and were expected to contribute towards a common stake. Initially, there was no communication permitted between them and it was observed that the contribution made was only 30%. In the next attempt, communication was allowed which increased the contribution up to 70%. Thus, communication was established to be a major player in increasing contribution towards public good as it permits interaction, discussion and understanding between individuals, enhancing commitment towards each other (altruism practiced). In the first attempt, it was more of impure altruism practised by people who did make a contribution, while in the next, it was more of group identification and community feeling that raised the contributions. On a broader perspective, it can be concluded that altruism plays a pivotal role in experimental

economics along with factors like communication, ethics and human

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rationale. However, it is unfair on the part of economists to be judgemental on the human nature and use that attribute to draw any conclusion. The question that comes to mind then is – Can human nature be a deciding factor for high contribution rate towards people goods? Reference Dawes, M. Robyn & Thaler, H. Richard. Anomalies Cooperation. *The Journal of Economic Perspectives*. 2(3), (1988): 187-197.