

Experimental economics, summary paper



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Summary of the Article Most behaviors in economics can be explained by assuming that agents have stable, well defined preferences and make rational choices consistent with the preferences in the markets. An empirical result is an anomaly if it is difficult to rationalize or if implausible assumptions are necessary to explain it within the paradigm. The paper presents a series of economic anomalies. An economic concept discussed in the journal article was the winner's curse. The winner can be set to be cursed in one of two ways: 1) the winning bid exceeds the value of the item; 2) the value of the item is less than the value to bidder estimated. The winners curse cannot occur if all bidders are rational, thus when the winner curse occurs it is considered a market anomaly. In an auction marketplace in which there are a lot of bidders one must utilize a more aggressive bidding strategy. Another risk associated with auctions in which there are lots of participants is for the winner to overstate the value of the item. In 1983 Max Bazerman and William Samuelson conducted an experiment on MBA students to test the winner's curse concept. They filled cookie jars with coins and they ask the students to make money bids for the cookie jar full of change. All cookie jars were valued at \$8.00, but this variable was unknown to the participants. The results were that the mean winning bid was \$10.01 which means that student overestimated the value by \$2.01. The winners were cursed with an item that was worth less than what they paid for. Often economic anomalies occur due to the existence of asymmetric information. An industry in which there are often projects that can be worth millions or nothing is the oil business. When companies make bids on oil exploration project the bids are done knowing that there is a possibility of complete failure. Market anomalies often occur in these types of auctions. The main

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findings of the article The main finding of the article is that the winner's curse is real economic phenomenon that can affect any economy market in which bidding occurs. In the corporate world companies often make tender offers on acquisition deals. The winner's curse often manifests itself in these circumstances when companies end up overpaying in the deal. The winners curse has applications in professional sports and pure auctions markets. A result that was particularly interesting to me An application of the winner's curse that was very interesting to me was the fact that the winner's curse applies to professional sports. When teams make bids to acquire free agents the pay based on an expectation of performance. Sometimes team pay too much for a player at which time they are an example of the winner curse. Two years ago the L. A. Dodgers became the victim of the winner curse in their acquisition of Manny Ramirez. Manny after signing a contract worth \$45 over two years was suspended for testing positive to steroids. One discussion question Would you consider the acquisition of Alex Rodriguez by the New York Yankees an example of the winners curse? Work Cited Page Thaler, R. "Anomalies: The Winners Curse". The Journal of Economic Perspectives, 2(1) 1988: 191-202.