MASTER 1

BEHAVIORAL ECONOMICS
(durée 1h30)

Vendredi 11 janvier 2013 ~ 09h00 –10h30

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NOTE: you can receive a total of 20 points in this exam. Please answer all questions in English.

1. Bargaining (7 points):

i) Explain how bargaining can be modeled by describing the Stahl-Rubinstein game. What are the game-theoretical predictions in this game (for n=2) and how are they derived? (**2 points**)

ii) Explain the special case for n=1 (i.e. only one offer). How do you call this game? What are the game theoretical predictions for this game? (**1 point**)

iii) What kind of behavior has been observed in Europe and North America for the game described in (ii)? Discuss what we can learn from observing the choices of the 1st and the 2nd mover in this game (**2 points**).

iv) Predict behavior for 1st and 2nd movers in the game described in (ii) for a group where:

   a) People are highly risk averse and strongly agree that sharing equally is the right thing to do. (**1 point**)

   b) People are very risk seeking and sharing outcomes can vary a lot. (**1 point**)

2. Loss aversion (6 points):

i) Explain the concept of loss aversion. Who introduced it to the literature? What is known about it through experimental studies? (**1.5 points**)

ii) What do you need to know to measure loss aversion in experiments? Explain the practical problems that arise when studying losses and how this can be overcome in experiments. (**1.5 points**)

iii) It has been observed that taxi drivers work less hours on days where they can earn more. How can this be linked to loss aversion? Recall the approach and results from at least two papers (discussed in class) concerning the relationship between wages and work hours. (**3 points**)

3. Learning (7 points)

i) What is a behavioral bias? Can we say they are 'mistakes'? (**1 point**)

ii) It has been argued that biases might be overcome by learning. Discuss results from experiments that compared different incentive structures to play the advantageous strategy in a very difficult to understand choice problem (Monty Hall). Which incentive structure works the best according to these experiments and which ones are not effective? (**2 points**)

iii) What are the typical results observed in a finitely repeated public good game experiment? Can these results be explained by learning? Give experimental evidence that either support or reject the idea that learning is driving these results. What are the alternative explanations? Give support for these alternative explanations. (**4 points**)

Good luck!

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