

MASTER 1 in ECONOMICS
MASTER 1 ECONOMIE ET STATISTIQUE**Behavioral Economics / code : M1S110****Lundi 24 Juin 2013 – amphi MB1**

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A. HOPFENSITZ

→ durée conseillée pour traiter ce sujet : 1 heure

→ ATTENTION : le nom de la matière et son code doivent être IMPERATIVEMENT recopiés sur la copie d'examen

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

1. Auctions and risk (10 points)

- (a) (2 points): In experiments concerning market mechanism we often 'induce' values. Explain how this is done. Explain why we prefer such induced values in experiments and do not use 'ordinary' goods.
- (b) (4 points): Explain an experiment that shows the 'winners curse'. How do the values need to be induced? Give one idea how the winners curse could be reduced.
- (c) (4 points): How do risk attitudes influence bidding in a first price auction? Explain how you would test this idea experimentally. Give a concrete experimental design.

2. Methodology (10 points)

"A man sat at a metro station in Washington DC and started to play the violin. He played six Bach pieces for about 45 minutes. During that time, since it was rush hour, it was calculated that thousands of people went through the station, most of them on their way to work.

Three minutes went by and a middle aged man noticed there was musician playing. He slowed his pace and stopped for a few seconds and then hurried up to meet his schedule.

A minute later, the violinist received his first dollar tip: a woman threw the money in the till and without stopping continued to walk.

The one who paid the most attention was a 3 year old boy. His mother tagged him along, hurried but the kid stopped to look at the violinist. Finally the mother pushed hard and the child continued to walk turning his head all the time. This action was repeated by several other children. All the parents, without exception, forced them to move on.

In the 45 minutes the musician played, only 6 people stopped and stayed for a while. About 20 gave him money but continued to walk their normal pace. He collected \$32. When he finished playing and silence took over, no one noticed it. No one applauded, nor was there any recognition.

No one knew this but the violinist was Joshua Bell, one of the best musicians in the world. He played one of the most intricate pieces ever written with a violin worth \$3.5 million dollars.

Two days before his playing in the subway, Joshua Bell sold out at a theater in Boston and the seats average \$100.

Joshua Bell playing incognito in the metro station was organized by the Washington Post as part of an social experiment about perception, taste and priorities of people. The outlines were: in a commonplace environment at an inappropriate hour: Do we perceive beauty? Do we stop to appreciate it? Do we recognize the talent in an unexpected context?

The paragraph above describes a 'social experiment'. Discuss based on this text the following:

- (a) (4 points): Use the terminology introduced in class to classify this kind of experiment in contrast to experiments done in class. What are the advantages and disadvantages of such experiments?
- (b) (6 points): What is missing in the described situation to make it a real experiment? Describe how you would extend the situation to draw conclusions like: 'people do not perceive beauty in an unexpected environment'.

Good luck!