

ECO- 4455
Experimental Economics
Spring 2007

Professor: Tim Salmon
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Meeting Times: T TH 9:30- 10:45
Location: BEL 0033
Office Hours: T TH 11-12:00

Course Description:

Experimental Economics is a new but fast growing area of economic research that involves studying decision making behavior of human subjects in controlled experiments to investigate economic phenomena. This class will introduce you to the research methodology of conducting economic experiments we will then go through a broad range of economic problems and issues to see what we can learn about them from the experimental literature. The topics will range from understanding basic market behavior to examining how to optimally design an auction as well as things like understanding how voting institutions work and examining the degree to which standard economic models of decision making are accurate.

Prerequisites:

It will be assumed that all students have previously taken both Principles courses, ECO 2013 and ECO 2023. Working knowledge of the topics from those courses will be necessary. This class will use some concepts from Game Theory but a prior course on the topic will not be required. This material will be covered at the start of the semester. Willingness to do simple mathematics is required.

Course Texts:

Required text

1. Holt, Charles A. *Markets Games and Strategic Behavior*. Pearson / Addison Wesley. ISBN: 0-321-41931-6

Grading:

Grading for this course will consist of two midterm exams (25% each), one final exam (25%) and a research paper (25%).

Research Paper:

The research paper for this class will be due on the Tuesday 4/17/2007 (second to last class meeting). The topic of the papers will be chosen by the students and will consist of a proposed experiment to investigate an economic issue. The paper will be required to have a review of literature related to the idea (sources must be academic journals or working papers and there must be sources beyond those that might be covered in class) and then a detailed experimental design. The design should include a discussion of hypotheses regarding what results one should expect to see as well as a discussion about how potential results from the study should be interpreted. Students are strongly advised

to being looking for topics in February and discuss them with me to make sure that the idea is workable. I can help by providing sources to get you started on your research.

Course Outline:

Required readings are marked with an *. Any material covered in these readings is “fair game” for exams even if not covered in class. Readings marked with a • are supplemental readings for those who want additional background material. This is currently a draft of the final reading list as more material may be added over the course of the semester. There will be a version of the syllabus kept on my webpage, <http://garnet.acns.fsu.edu/~tsalmon> that will have links to the papers and an up to date list of them.

Note that many of these links are to articles stored on Jstor.org. If you are on a University computer you will find a link to download or print these papers that will give you the paper in one pdf file. If you are on a computer off of campus, you can find information on the library’s [webpage](#) on how to gain access.

1. Overview and History of Experimental Economics
 - * Holt Chapter 1
2. Short Game Theory Review
 - Samuelson, Larry, 2005. “Economic Theory and Experimental Economics,” *Journal of Economic Literature*, 43: 65-107
3. Classic Oral Double Auctions - Experiment
 - * Holt Chapter 2
 - * Smith, Vernon L., 1962. “[An Experimental Study of Competitive Market Behavior](#),” *The Journal of Political Economy*, 70-2: 111-137.
4. Monopoly and Cournot
 - * Holt Chapter 6
5. Collusion and Price Competition
 - * Holt Chapter 9
 - * Hong, James T and Charles R. Plott, 1982. “[Rate Filing Policies for Inland Water Transportation: An Experimental Approach](#),” *The Bell Journal of Economics*, 13-1: 1-19.
 - * Deck, Cary A. and Bart Wilson, 2003. “[Automated Pricing Rules in Electronic Posted Offer Markets](#),” *Economic Inquiry*, 41(2).
6. Market Failure
 - * Holt Chapter 10

Midterm I

7. Dictator and Ultimatum Games - Experiment
 - * Holt Chapter 12
 - * Hoffman, Elizabeth and Kevin McCabe and Vernon L. Smith, 1996. “[Social Distance and Other-Regarding Behavior in Dictator Games](#),” *The American Economic Review*, 86-3: 653-660.

8. Fairness, trust and reciprocity
 - * Holt Chapter 13
 - * Esarey, Justin and Tim Salmon and Charles Barrilleaux, 2006. "[What Motivates Political Preferences? Self-Interest, Ideology, and Fairness in a Laboratory Democracy](#)," working paper
9. Public Goods
 - * Holt Chapter 14
10. Common Pool Resource
 - * Holt Chapter 16
11. Voting and Political Science Experiments
 - * Holt Chapter 18
 - * McKelvey, Richard and Peter Ordeshook, 1985. "[Sequential Elections with Limited Information](#)," *American Journal of Political Science*, 29-3: 480-512
 - Morton, Rebecca and Kenneth C Williams, 2006 "[Experimentation in Political Science](#)" forthcoming in *The Oxford Handbook on Political Methodology*.

Midterm II

12. Private Value Auctions - Experiment
 - * Holt Chapter 19
 - * Cox, James C., Bruce Roberson and Vernon L Smith, 1982. "[Theory and Behavior of Single Object Auctions](#)," *Research in Experimental Economics*, Volume 2, pages 1-43.
13. Winner's Curse - Experiment
 - * Holt Chapter 21
14. Multi-Unit Auctions
 - * Holt Chapter 22
15. Electronic Markets
 - * Roth, Alvin E. and Axel Ockenfels, 2002. "[Last-Minute Bidding and the Rules for Ending Second-Price Auctions: Evidence from eBay and Amazon Auctions on the Internet](#)," *American Economic Review*, 92-4: 1093-1103.
 - * Salmon, Timothy C. and Bart Wilson, 2007. "[Second Chance Offers vs. Sequential Auctions: Theory and Behavior](#)," forthcoming *Economic Theory*.
16. Prediction Markets
 - * Holt Chapter 34

Final Exam: Tuesday April 24th 10:00-12:00

HONOR CODE: Academic dishonesty as it relates to tests in this course will not be tolerated in any form. The Academic Honor system of the Florida State University is based on the premise that each student has the responsibility to:

1. Uphold the highest standards of academic integrity in the student's own work;
2. Refuse to tolerate violations of academic integrity;
3. Foster a high sense of integrity and social responsibility.

Put simply, cheating will not be tolerated. If an instance of academic dishonesty takes place, all students involved will receive a zero for that exam and the grade may not be dropped.

AMERICAN DISABILITIES ACT STATEMENT: Students with disabilities needing academic accommodations should:

1. Register with and provide documentation to the Student Disability Resource Center (SDRC);
2. Bring a letter to the instructor from SDRC indicating that you need academic accommodations. This should be done within the first week of class.