

Chapter 18 Social Economics

Modified by Joseph Tao-yi Wang

Microeconomics

Acemoglu Laibson List

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Chapter Outline

- 18.1. The Economics of Charity and Fairness
- 18.2. The Economics of Trust and Revenge
- 18.3. How Others Influence Our Decisions

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Key Ideas

1. Many people have preferences that go beyond material wealth.
2. Charity, fairness, trust, revenge, and conforming to those around us represent a few examples.
3. Economic tools can be used to understand when such factors will play an important role.

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Key Ideas

4. Economists have found that such behaviors are important when their opportunity cost is low.

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Evidence-Based Economics Example

Do people care about fairness?



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► Is economics only about self-interest?



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The Economics of Charity and Fairness

The Economics of Charity

▶ People can give of their time...

Exhibit 18.1 Volunteering Around the Globe

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The Economics of Charity and Fairness

The Economics of Charity

▶ ...and their money

Exhibit 18.2 U.S. Household Giving in 2011 by Recipient Status

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The Economics of Charity and Fairness

The Economics of Charity

▶ Why do people give to charity?

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The Economics of Charity and Fairness

The Economics of Charity

▶ Why give?

1. To help others
Pure altruism:
▶ A motivation solely to help others
1. To help yourself
Impure altruism:
▶ A motivation solely to help oneself

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The Economics of Charity and Fairness

The Economics of Fairness

▶ Would you pick Friend or Foe?

		Joe	
		Friend	Foe
You	Friend	<ul style="list-style-type: none"> • You get \$8,200 • Joe gets \$8,200 	<ul style="list-style-type: none"> • You get \$0 • Joe gets \$16,400
	Foe	<ul style="list-style-type: none"> • You get \$16,400 • Joe gets \$0 	<ul style="list-style-type: none"> • You get \$0 • Joe gets \$0

Exhibit 18.3 Friend or Foe TV Game Show: A Variant of the Prisoners' Dilemma

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The Economics of Charity and Fairness

The Economics of Fairness

▶ Fairness

- ▶ Willingness of individuals to sacrifice their own well-being to either improve upon the well-being of others or to punish those who they perceive as behaving unkindly

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The Economics of Charity and Fairness

The Economics of Fairness

		Joe	
		Friend	Foe
You	Friend	<ul style="list-style-type: none"> You get \$8,200 Joe gets \$8,200 	<ul style="list-style-type: none"> You get \$0 Joe gets \$16,400 minus fairness penalty
	Foe	<ul style="list-style-type: none"> You get \$16,400 minus fairness penalty Joe gets \$0 	<ul style="list-style-type: none"> You get \$0 minus fairness penalty Joe gets \$0 minus fairness penalty

Exhibit 18.4 Friend or Foe TV Game Show with Fairness Preferences

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The Economics of Charity and Fairness

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Exhibit 18.6 The Ultimatum Game

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The Economics of Charity and Fairness

The Economics of Fairness

But neither Proposers nor Responders act this way.

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Evidence-Based Economics Example

Do people care about fairness?

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The Economics of Charity and Fairness

The Economics of Fairness

State	Average share offered
1	~0.24
2	~0.18
3	~0.14
4	~0.12

Offer less than or equal to 20%	Rejection rate
1	~0.42
2	~0.48
3	~0.28
4	~0.05

Exhibit 18.7 Offers and Rejection Rates in the Ultimatum Game

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The Economics of Trust and Revenge

The Economics of Trust

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The Economics of Trust and Revenge
The Economics of Trust

► Would you trust Gary?

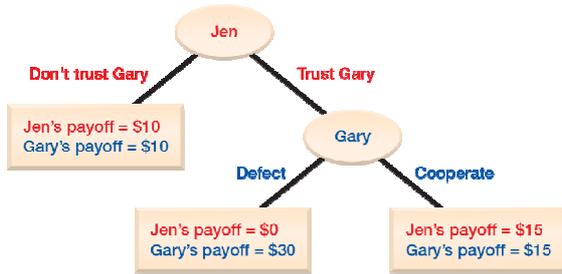


Exhibit 18.8 A Trust Game Between Jen and Gary

The Economics of Trust and Revenge
The Economics of Trust

► Backward induction:

- Since Gary's payoff is greater if he defects (\$30 vs. \$15), he will choose defection.
- Knowing this will be Gary's choice, Jen will choose not to trust Gary (she gets \$10 vs. \$0)

► Is this the best outcome?

The Economics of Trust and Revenge
The Economics of Trust

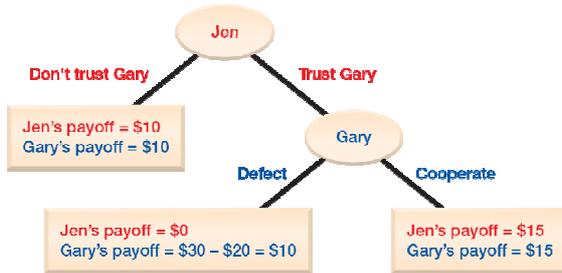


Exhibit 18.9 A Trust Game Between Jen and Gary with a \$20 Guilt Penalty

The Economics of Trust and Revenge
The Economics of Trust

Are you more likely to be ripped off if you have car trouble while on vacation or at home?



The Economics of Trust and Revenge
The Economics of Revenge

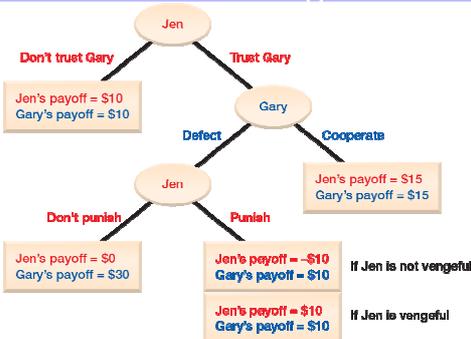


Exhibit 18.10 A Trust Game Between Jen and Gary with a Punishment Option

How Others Influence Our Decisions
Where Do Our Preferences Come From?

► Preferences are the result of

1. Nature
2. Socialization
3. Indoctrination

► Agents imbue society with their ideology or opinion

The Economics of Peer Effects vs. Following the Crowd: Herding

- ▶ Peer effects
 - ▶ Influence of the decisions of others on our own choices
- ▶ Herding
 - ▶ Behavior of individuals who conform to the decisions of others

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How Others Influence Our Decisions Following the Crowd: Herding

- ▶ Why would people engage in herding?
 1. They are afraid to be wrong
 2. Assume that if others are doing something, they must have a good reason—
 - ▶ they have more (or better) information

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How Others Influence Our Decisions Following the Crowd: Herding

The house next door to you is for sale.
Should you be worried?



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How Others Influence Our Decisions Following the Crowd: Herding

- ▶ Information cascade
 - ▶ When people make the same decisions as others, ignoring their own private information
- ▶ ALL Chap.18, Problem 2, 3, 4, 6, 8, 9, 12
- ▶ Challenge Questions (from Past Finals)
 - ▶ None (This is new material)

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