

*2007 Labsi International Conference*  
*on*  
**Political Economy and Public Choice: Theory  
and Experiments**

**LabSi**

EXPERIMENTAL ECONOMICS LABORATORY - University of Siena



Abstract  
book

**27-29 September, 2007**  
**Certosa di Pontignano, Siena - Italy**



**2007 Labsi International Conference**  
**on**  
**Political Economy and Public Choice: Theory and Experiments**

**27-29 September 2007**  
**Certosa di Pontignano, Siena - Italy**

**PROGRAM**

**Friday 28th September**

**8:30-9:00**

Registration

**9:00-9:30**

Welcome

**INVITED LECTURE**

**9:30-10:15**

**Arthur Schram** (CREED University of Amsterdam)  
"Public Opinion Polls, Voter Turnout, and Welfare: An Experimental Study"  
(co-authored with Jens Großer)

**10:15-10:30**

Coffee break

**10:30-13:00**

**PARALLEL SESSIONS A1 - A2 - A3**

**SESSION A1 - PUBLIC GOODS**

Chair: Patrizia Sbriglia

**Nicolao Bonini**,\* Ilana Ritov\*\* and **Michele Graffeo**\* (\*University of Trento, \*\*Hebrew University)  
"When does a referent problem affect willingness to pay for a public good?"

Luca Corazzini,\* Marco Faravelli\*\* and **Luca Stanca**\*\*\* (\*University of East Anglia and Bocconi University Milan, \*\* Edinburgh University, \*\*\*University of Milan Bicocca)  
"A Prize to Give for: An Experiment on Public Good Funding Mechanisms"

**Ravi Gurajala**,\* **Busenna Pesala**\* and **Martina Pignatti Morano**\*\* (\*University of Hyderabad, \*\*University of Siena)  
"Provision of public goods through participatory planning: Inequality and Collective Action in Indian villages"

Stefan Ambec, Alexis Garapin, **Laurent Muller** and **Carine Sebi** (GAEL, INRA-Université Pierre Mendès France)  
"The regulations of a common pool resource with heterogeneous agents: an experimental investigation"

**Markéta Řežuchová** (Masaryk University)  
"Alternative Arrangements for Providing Public Goods and Services"

Annamaria Fiore,\* M. Vittoria Levati\*\* and **Andrea Morone**\* (\*Università di Bari, \*\*Università di Bari and Max Planck Institute of Economics)  
"Voluntary contributions with imperfect information: An experimental study"

## SESSION A2 - REGULATION / FINANCE AND BANKING

Chair: Alessandro Vercelli

### A2.1 - REGULATION

**Michał Krawczyk** (CREED, University of Amsterdam)

"A glimpse through the veil of ignorance: equality of opportunity and support for redistribution"

**Andreas Leibbrandt**\* and Raúl López-Pérez\*\* (\*University of Zurich, \*\*Universidad Autónoma de Madrid)

"The Envious Punisher: Understanding Second and Third Party Punishment with Simple Games"

Benito Arruñada\* and **Marco Casari**\*\* (\*Pompeu Fabra University, \*\*Purdue University)

"How enforcement institutions affect markets"

### A2.2 - FINANCE AND BANKING

Alexander Klos and **Norbert Sträter** (University of Münster)

"Global Games and Demand-Deposit Contracts: An Experimental Study of Bank Runs"

Alessandro Cappellini\* and **Gianluigi Ferraris**\*\* (\*ISI Foundation, \*\*University of Turin)

"Social Learning in Financial Markets"

**Raffaella Barone**\* and Anna Grazia Quaranta\*\* (\*Università di Lecce, \*\*Università di Camerino)

"Banking Competition, Switching Costs and Customer Vulnerability"

## SESSION A3 - FISCAL AND LOCAL POLICIES

Chair: Massimo Di Matteo

**Fabrizio Balassone**, Daniele Franco and Stefania Zotteri (Banca d'Italia)

"The Reliability of EMU Fiscal Indicators: Risks and Safeguards"

Valérie Berenger\* and **Matthieu Llorca**\*\* (\*University of Nice-Sophia Antipolis CEMAFI, \*\*University of Burgundy, LEG/FARGO)

"Political determinants of the fiscal sustainability: evidence from six individual developed countries"

Gabrielle Fack and **Camille Landais** (Paris School of Economics)

"Are Fiscal Incentives Towards Charitable Giving Efficient ? Evidence from France"

**Juan González Alegre** (European University Institute, Florence)

"An Evaluation of EU regional policy. Do Structural Actions crowd-out Public Spending?"

**Lenka Gregorova** and Martin Gregor (IES Charles University, Prague)

"Competition of Municipalities via Spending Composition: The Case of the Czech Republic"

**Stijn Goeminne** and **Carine Smolders** (University College Ghent)

"Vote expectations and pre-electoral tariff cuts in Flemish municipalities"

13:00-14:15

Lunch

14:15-16:45

**PARALLEL SESSIONS B1 - B2 - B3**

**SESSION B1 – POLITICAL ECONOMY**

Chair: Luigi Luini

**Sanna Nurmikko** (University of Essex)

"Survival of Political Leadership"

Florian Schuett and **Alexander Wagner** (University of Toulouse)

"Evaluating political decision makers: With the benefit of hindsight bias?"

**Galina Zudenkova** (Universidad Carlos III de Madrid)

"Income Redistribution under Sincere Lobbying Formation"

**Graziella Bertocchi** (Università di Modena e Reggio Emilia, CEPR, CHILD and IZA)

"The Enfranchisement of Women and the Welfare State"

**Marina Grusevaja** (Universität Potsdam)

"Competition Law in Transformation: Impact of Transplanted Competition Law on the Effectiveness of Competition Policy as Economic Institution in Russia"

**Masoud Nili** and Ideen Ali Rihai (Sharif University of Technology, Azadi)

"Democratization in Resource Dependent Economies: A Theoretical Framework"

**SESSION B2 – MONETARY AND INTERNATIONAL ECONOMICS**

Chair: Francesco Farina

**Robin Pope**,\* Reinhard Selten,\* Johannes Kaiser\* and Jurgen von Hagen\*\* (\*Experimental Economics Laboratory Bonn University, \*\*Institute for International Economics, Bonn University)

"The Underlying Cause of Unpredictability in Exchange Rates and Good Models of Exchange Rate Regime Selection"

**Tobias F. Rötheli** (University of Erfurt)

"An Experimental Comparison of Monetary and Barter Exchange"

Anna Ruocco and **Ciro Rapacciuolo** (Centro Studi Confindustria Roma)

"Did the Economic Policy Matter for the Euro Area Growth? Some Empirical Evidence"

**Florina Semenescu** (Laboratoire d'Economie d'Orléans)

"Monetary and Fiscal Policy in an Open Heterogeneous Monetary Union"

**Vivian Lei**,\* Steven Tucker\*\* and Filip Vesely\*\*\* (\*University of Wisconsin-Milwaukee and City University of Hong Kong, \*\*University of Canterbury, \*\*\*University of Wisconsin-Milwaukee and Hong Kong University of Science and Technology)

"Forgive or Buy Back: An Experimental Study of Debt Relief"

**Abdoul Ganiou Mijiyawa** (CERDI, Clermont-Ferrand)

"Inflation and Democracy in Former Extractive Colonies: Analysis with Instrumental Variables"

### **SESSION B3 – TAXATION**

Chair: Maria Grazia Pazienza

**Vilen Lipaton** (European University Institute, Florence)

"Tax Evasion and Coordination"

Stefania Ottone and **Ferruccio Ponzano** (University of Eastern Piedmont)

"Laffer curve in a non-Leviathan scenario, a real effort experiment"

**Jan Šíroký** and **Kateřina Maková** (VSB-Technical University of Ostrava)

"Theoretical approaches to measuring of the tax progressiveness (with the practical application)"

**Maria Vyshnya** (Kyiv Economics Institute)

"Accumulation of Tax Arrears in Ukraine: Liquidity Problem or Rent – Seeking?"

**Simone Pellegrino**,\* Massimiliano Piacenza\*° and Gilberto Turati\* (\*Università di Torino °CERIS-CNR)

"The runaway taxpayer. Or: Is prior audit effective in reducing tax evasion?"

**László Paizs** (Institute of Economics of Hungarian Academy of Sciences)

"Asymmetric diesel tax competition: theory and evidence for EU countries"

**16:45-17:00**

Coffee break

**17:00-19:30**

### **PARALLEL SESSIONS C1 - C2 - C3**

### **SESSION C1 – CORRUPTION**

Chair: Roberto Ricciuti

**Mohammad Reza Farzanegan** (Dresden University of Technology)

"Illegal Trade in the Iranian Economy: A MIMIC Approach"

Barr Abigail and **Danila Serra** (University of Oxford)

"Culture and Corruption"

**Danila Serra** (University of Oxford)

"Bargaining for bribes: The role of moral costs and imperfect information"

**Ting Jiang** (Tillburg University)

"Mind the Corruption Club Trap"

**Fadi Kanso** (Université Paul Cézanne, Aix-Marseille III)

"Wages and Penalties in Fighting Hierarchical Corruption (The Case of Tax Administration)"

**Sebastian Freille**,\* M Emranul Haque\*\* and Richard Kneller\* (\*University of Nottingham, \*\*University of Manchester)

"Decentralisation, corruption and economic development"

## **SESSION C2 – VOTING BEHAVIOUR**

Chair: Vincenzo Valori

**Lisa Grazzini** and Alessandro Petretto (University of Florence)

"Voting on Devolution in a Federal Country with a Bicameral National System"

**Wolfgang Höechtl**,\* Rupert Sausgruber\* and Jean-Robert Tyran\*\* (\*University of Innsbruck, \*\*University of Copenhagen)

"Selfishness, Fairness and Voting for Redistribution"

**Serguei Kaniovski** (Austrian Institute of Economic Research (WIFO))

"The Exact Bias of the Banzhaf Measure of Power when Votes are Not Equiprobable and Independent"

Carla Marchese\* and **Marcello Montefiori**\*\* (\*Università del Piemonte Orientale, \*\*Università di Genova)

"Voting the public expenditure: an experiment"

**Selim Jürgen Ergun** (Universitat Autònoma de Barcelona)

"From Plurality Rule to Proportional Representation"

**Giuseppe Attanasi**, Luca Corazzini and Francesco Passarelli (Università Bocconi Milano)

"Voting as a lottery"

## **SESSION C3 – COOPERATION AND ALTRUISM**

Chair: Daniela Di Cagno

Veronika Grimm\* and **Friederike Mengel**\*\* (\*University of Cologne, \*\*University of Alicante)

"Cooperation in Viscous Populations - Experimental Evidence"

**Luigi Bosco** (Università di Siena)

"Power, hierarchy and social preferences"

Nancy Buchan,\* **Gianluca Grimalda**,\*\* Marilyn Brewer,\*\*\* Enrique Fatas<sup>o</sup> and Margaret Foddy Rick Wilson<sup>oo</sup> (\*South Carolina University, \*\*Warwick University, \*\*\*Ohio State University, <sup>o</sup>Valencia University, <sup>oo</sup>Carleton Rice University)

"Globalisation and Propensity To Co-Operate: Results From Multi-Country Field Experiments"

Antonio Cabrales,\* Raffaele Miniaci,\*\* Marco Piovesan\*\*\* and **Giovanni Ponti**<sup>o</sup> (\*Universidad Carlos III de Madrid, \*\*Università di Brescia, \*\*\*Università di Padova, <sup>o</sup>Universidad de Alicante and Università di Ferrara)

"An Experiment On Markets And Contracts: Social Preferences Under The Veil Of Ignorance"

**Anna Conte**, **Daniela Di Cagno** and Emanuela Sciubba (Luiss University Rome)

"Demand for Links and Convergence in Social Networks"

**20:30**

Social Dinner



## Saturday 29th September

### INVITED LECTURES

**Jordi Brandts** (Institut d'Anàlisi Econòmica (CSIC), Barcelona)  
"Political Autonomy and Independence: Theory and Experimental Evidence"  
(co-authored with Klaus Abbink)

9:00-10:30

**Rosemarie Nagel** (Universitat Pompeu Fabra)  
"It is Hobbes, not Rousseau. An Experiment on Social Insurance"  
(co-authored with Antonio Cabrales and José V. Rodríguez-Mora)

10:30-10:45

Coffee break

10:45-13:15

### PARALLEL SESSIONS D1 - D2 - D3

#### SESSION D1 – SOCIAL LEARNING AND INFORMATION AGGREGATION

Chair: Rosemarie Nagel

Christoph March and **Anthony Ziegelmeyer** (Max Planck Institute of Economics, Jena)  
"A Bounded Rationality Model of Social Learning"

**Joël van der Weel** (European University Institute, Florence)  
"The Signalling Power of Sanctions in Collective Action Problems"

**Christophe Deissenberg\*** and **Patrizia Sbriglia\*\*** (\*Université de la Méditerranée, \*\*Università di Napoli 2)  
"Strategic announcements in a policy game"

**Giuseppe Attanasi,\*** Aurora García-Gallego,\*\* Nikolaos Georgantzís,\*\* and Aldo Montesano\*\*\* (\*Toulouse School of Economics, \*\*LEE, Universitat Jaume I, Castellón, \*\*\*Università Bocconi, Milan )  
"Games with Confirmed Proposals"

**Joana Pais\*** and Ágnes Pintér\*\* (\*Universidade Técnica de Lisboa and UECE, \*\*Universidad Carlos III de Madrid)  
"School Choice and Information. An Experimental Study on Matching Mechanism"

**Alessandro Innocenti,\*** **Maria Grazia Pazienza,\*\*** Alessandra Rufa\* and Jacopo Semmoloni (\*Università di Siena, \*\*Università di Firenze)  
"Informational Cascades and Gaze Cascade Effect. An Eye-tracking Study"

#### SESSION D2 – PUBLIC AND ENVIRONMENTAL POLICIES

Chair: Domenico Colucci

**Daria Denti** (Università di Modena e Reggio Emilia and European University Institute)  
"Cleaning the World Doing Maths"



**Zuzana Darmopilová** and Jiří Špalek (Masaryk University)

"Interest groups satisfaction as a factor of successful healthcare reform policy (application of the game theory)"

**Martin Duensing** (University of Oldenburg)

"Child support and custody arrangements in the bargaining family"

**Anna Pellanda** (Università di Padova)

"The Demand for Contemporary Visual Art by Public Museums between Production and Us"

**Marek Pavlik** (Masaryk University)

"Voting preferences as a factor affecting health care policy implementation"

**Jharna Pathak** (Gujarat Institute of Development Research, Ahmedabad)

"Contribution and performance of water use in Drinking water sector: case studies of municipalities"

### **SESSION D3 – INDIVIDUAL PREFERENCES AND WELFARE**

Chair: Marco Casari

Fabrizio Botti, **Anna Conte**, **Daniela Di Cagno** and Carlo D'Ippoliti (Università Luiss, Roma)

"Laboratory versus Natural and Framed Field Experiments: Searching for the Counterfactual"

Luciano Fanti and **Luca Gori** (Università di Pisa)

"Long Run Output, Welfare and Fertility in a Neoclassical OLG Growth Model with Regulated Wage and Involuntary Unemployment"

**Andrea Gallice** (European University Institute, Florence)

"Some Social Welfare Implications of Behavioral Preferences"

**Jaromir Kovarik** (Universidad de Alicante and LaTeX)

"Belief Formation and Evolution in Public Good Games"

**Gianna Lotito** (Università del Piemonte Orientale)

"Resolute Choice in interaction: A qualitative experiment"

**Luigi Luini**\* and Pier Luigi Sabbatini\*\* (\*Università di Siena, \*\*Italian Antitrust Authority)

"Demand cross elasticity without substitutability. Evidence from a field experiment"

**13.15**

Closing Lunch

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## INVITED LECTURES

**Friday 28th September**  
**9:30-10:15**

Jens Großer\* and **Arthur Schram\*\*** (\*Florida State University, \*\*CREED University of Amsterdam)

### **“Public Opinion Polls, Voter Turnout, and Welfare: An Experimental Study”**

We experimentally study the impact of public opinion poll releases on voter turnout and welfare in a participation game. We find higher turnout rates when polls inform the electorate about the levels of support for various candidates than when polls are prohibited.

Distinguishing between allied and floating voters, our data show that this increase in turnout is entirely due to floating voters. Very high turnout is observed when polls indicate equal support levels for the candidates. This has negative consequences for welfare. Though in aggregate social welfare is hardly affected, majorities benefit more often from polls than minorities. Finally, our comparative static results are better predicted by quantal response (logit) equilibrium than by Bayesian Nash equilibrium.

**Saturday 29th September**  
**9:00-9:45**

Klaus Abbink\* and **Jordi Brandts\*\*** (\*CREED, University of Amsterdam, \*\*Institut d'Anàlisi Econòmica (CSIC), Barcelona)

### **“Political Autonomy and Independence: Theory and Experimental Evidence”**

We study the process by which subordinated regions of a country can obtain a more favourable political status. In our theoretical model a dominant and a dominated region first interact through a voting process that can lead to different degrees of autonomy. If this process fails then both regions engage in a costly political conflict which can only lead to the maintenance of the initial subordination of the region in question or to its complete independence. In the subgame-perfect equilibrium the voting process always leads to an intermediate arrangement acceptable for both parts. Hence, the costly political struggle never occurs. In contrast, in our experiments we observe a large amount of fighting involving high material losses, even in a case in which the possibilities for an arrangement without conflict are very salient. In our experimental environment intermediate solutions are feasible and stable, but purely emotional elements prevent them from being reached.

**Saturday 29th September**  
**9:45-10:30**

Antonio Cabrales\*, **Rosemarie Nagel**\*\* and José V. Rodríguez-Mora\*\* (\*Universidad Carlos III, \*\* Universitat Pompeu Fabra)

### **"It is Hobbes, not Rousseau. An Experiment on Social Insurance"**

We perform an experiment on social insurance to provide a laboratory replica of some important features of the welfare state. In the experiment, all individuals in a group decide whether to make a costly effort, which produces a random (independent) outcome for each one of them. The group members then vote on whether to redistribute the resulting and commonly known total sum of earnings equally amongst themselves. This game has two equilibria, if played once. In one of them, all players make effort and there is little redistribution. In the other one, there is no effort and nothing to redistribute. A solution to the repeated game allows for redistribution and high effort, by the threat to revert to the worst of these equilibria. Our results show that redistribution with high effort is not sustainable. The main reason for the absence of redistribution is that rich agents do not act differently depending on whether the poor have worked hard or not. There is no social contract by which redistribution may be sustained by the threat of punishing the poor if they do not exert effort. Thus, the explanation of the behavior of the subjects lies in Hobbes, not in Rousseau.

**Nicolao Bonini**,\* Ilana Ritov\*\* and **Michele Graffeo**\* (\*University of Trento, \*\*Hebrew University)

**“When does a referent problem affect willingness to pay for a public good?”**

In two studies we examined the willingness to support action to remedy a public problem. In Study 1 people were asked whether they would financially contribute to solution of a public problem. In Study 2, people were asked whether they would sign a petition to support a public action. The aim was to test whether the willingness to support solution of a public problem is affected by the type of problem that is used as the referent. We hypothesized that the willingness to support a public action is lower when evaluated in the context of a high - as opposed to a low - importance referent problem (importance contrast effect). We also hypothesized that the importance contrast effect is tied to the perceived relatedness between the target and referent problems. The importance contrast effect should be found only when the two problems relate to different category domains. The findings bear out this prediction.

Luca Corazzini,\* Marco Faravelli\*\* and **Luca Stanca\*\*\*** (\*University of East Anglia and Bocconi University Milan, \*\* Edinburgh University, \*\*\*University of Milan Bicocca)

**“A Prize to Give for: An Experiment on Public Good Funding Mechanisms”**

This paper investigates fund-raising mechanisms based on a prize as a way to overcome free riding in the private provision of public goods, under the assumptions of income heterogeneity and incomplete information about income levels. We compare experimentally the performance of a lottery, an all-pay auction and a benchmark voluntary contribution mechanism. We find that prize-based mechanisms perform better than voluntary contribution in terms of public good provision after accounting for the cost of the prize. Comparing the prize-based mechanisms, total contributions are significantly higher in the lottery than in the all-pay auction. Focusing on individual income types, the lottery outperforms voluntary contributions and the all-pay auction throughout the income distribution.

**Ravi Gurajala**,\* **Busenna Pesala**\* and **Martina Pignatti Morano\*\*** (\*University of Hyderabad. \*\*University of Siena)

**“Provision of public goods through participatory planning: Inequality and Collective Action in Indian villages”**

This paper explores how institutions of participatory planning affect the ability of heterogeneous communities to finance local public goods, by improving mutual trust and

enhancing collective action. In rural India, since a constitutional reform on decentralized governance was approved in 1992, local planning committees should receive precise guidelines by village meetings (*Gram Sabhas*) that meet four times per year. In fact, this last institution of participatory planning is little participated – where implemented - due to the skepticism/disempowerment of the poorest and the opposition of the richer members of the village towards any opportunity of redistribution of power within the community. In spite of such difficulties, we wanted to investigate whether village meetings could offer opportunities to increase social efficiency in the economic organization of communities by providing net additions to the quantity of public goods available.

This paper reports the results of field experiments conducted in two rural villages of Andhra Pradesh, where trust games and framed public good games have been played with villagers who have the right to participate in village meetings. Participants were selected between respondents to the ICRISAT household survey, allowing us to create groups with different levels of wealth and caste inequality. The introduction of communication between players in the second stage of public good games significantly increased the level of contributions, particularly in the most heterogeneous groups, confirming the potentially high economic and social value of *Gram Sabhas*. Household data on economic and social dimensions of participants' life, questionnaires on social norms and behavioural data measured through trust games, have been used to explain statistically the variation found within and across groups.

Stefan Ambec, Alexis Garapin, **Laurent Muller** and **Carine Sebi** (GAEL, INRA-Université Pierre Mendés France)

### **"The regulations of a common pool resource with heterogeneous agents: an experimental investigation"**

Worldwide, many natural resources such as fisheries are exploited under free-access. Since Gordon (1954), it is well-known that the free-access extraction of a common-pool resource (CPR) leads to over-exploitation. To improve resource management, the fishing industry has been regulated with various instruments such as quotas, fees and subsidies. These regulatory instruments have various impacts on fishermen, depending on their technology and opportunity costs. Some may gain or lose more than others compared to the free-access extraction regime. The feasibility of a given regulation should take into account its acceptability by fishermen, driven by the fishermen's welfare.

Ambec and Sebi (2007) model that examines three regulatory instruments when fishermen differ with respect to their cost of fishing: non transferable individual fishing quotas, transferable individual fishing quotas and a fee/subsidy scheme. All instruments must be acceptable in the sense that all fishermen must be better-off under the regulated extraction regime than under free-access. They provide necessary and sufficient conditions for the implementation of a targeted fishing effort. In their set up, a fee/subsidy scheme and transferable quotas are equivalent. They dominate non-transferable quotas because (i) they select the more efficient fishermen and (ii) they achieve a higher reduction of fishing effort.

In order to test these results, we design an experiment based on this model, thereby contributing to the recent experimental approach to CPR extraction (Margreiter 2005,

Ostrom 2006). We set the experiment with two groups of eight participants and two types of players (the players differ from their opportunity costs). Each session consists of a within-study with four distinct treatments: the free access regime and the three above regulations (non transferable quotas, transferable quotas and a fee/subsidy scheme). The experiment allows us to compare the performance of the three regulations using several criteria. We measure: (i) individual and social welfare (acceptability condition and inequality) by comparing profits in the four treatments; (ii) the assessment of effort reduction (the achievement of the regulator's target and the convergence to it); (iii) the selection of the less costly fishermen (sorting effect). As observed in other experiments, our findings first support non-cooperation under FA (over-exploitation). While on average fishermen increase their profits with the regulation instruments, the acceptability condition is more rarely met for the lower opportunity cost type. Consequently, the profit acceptability condition is reached only for the type B and not for the type A fishermen. The market based instruments (FS and ITQ) are also the most acceptable instruments. We observed in the experiment that the three regulatory mechanisms (namely FS, ITQ and NTQ) enabled to achieve the targeted fishing effort, consisting in reducing by half the aggregated effort compared to FA. However, the FS instrument involved much higher variance in aggregated effort, while in the ITQ treatment, though more complex, induced a remarkably stable effort level close the NE for regulation. The market based mechanisms select the most efficient fishermen (type A), i.e. type A still extracts resource whereas type B prefers to exit the resource. Actually, according to the chosen criteria to compare overall efficiency of the regulatory instruments, market based instruments are the best (higher acceptability and profits) and select the most efficient fishermen.

**Markéta Řežuchová** (Masaryk University)

### **"Alternative Arrangements for Providing Public Goods and Services"**

This paper analyses methods of providing public goods (collective, individual, toll and common pool goods), especially emphasizing public-private partnerships in theoretical and practical background. Author also examines the ways how politicians influence the process of delivering services privatization. The spectrum of provided public goods and services in various countries differs as to the scope, structure and the methods of providing. These goods and services have been subsidized by government or produced directly by government and supplied to all or to a broad class of eligible. Such a spectrum is influenced by history, cultural evolution and of course by the type of the welfare state. Among others, it usually consists of individual and toll goods, which could be efficiently provided by the market. The welfare state is tottering especially in Europe. The trend is unmistakably away from government and toward the other institutions. The act of reducing the role of government and of increasing the role of the other institutions of society in producing goods and services and in owning property is examined.



Annamaria Fiore,\* M. Vittoria Levati\*\* and **Andrea Morone\*** (\*Università di Bari, \*\*Università di Bari and Max Planck Institute of Economics)

**“Voluntary contributions with imperfect information: An experimental study”**

We use a two-person linear voluntary contribution mechanism with stochastic marginal benefits from the public good to examine the effect of imperfect information on contributions levels. To assess prior risk attitudes, individual valuations of several risky prospects are elicited via a second-price auction. We find that limited information about the productivity of the public good lowers significantly initial contributions in comparison to a setting with perfect information, whereas different information conditions do not result in qualitatively different contribution patterns. Moreover, our results show clear evidence of risk aversion, and of a negative relationship between the latter and willingness to cooperate.

**Michal Krawczyk** (CREED, University of Amsterdam)

**“A glimpse through the veil of ignorance: equality of opportunity and support for redistribution”**

This study is an experimental investigation into preference for redistribution of income. It had been hypothesized that (belief in) equality of opportunity in a society diminishes support for the welfare state (which could potentially explain the low taxes and social benefits in the United States vis-a-vis Europe).

To verify this hypothesis, 184 participants in an experiment were assigned different Probabilities of Winning (the prize to be won was 30 euro) and matched in groups of four. Next, before finding out who would actually win (veil of ignorance), they selected preferred transfers to be paid by the winners to the group as a whole. It was found that the average transfers were about 20% lower in the sessions in which winning was determined by performance in a task rather than by sheer luck (this difference is statistically significant at 5% level and cannot be explained by overconfidence in predicting own score). It corroborates the conjecture that perceived determinants of success (i.e. whether poverty results from laziness or bad luck) affect the support for redistribution. On the other hand, greater inequality of opportunity measured simply by dispersion of Probabilities of Winning within a group did not lead to higher transfers. I was also able to establish that both risk aversion and outcome-inequality aversion affected the decisions, but little evidence of concern for efficiency could be found.

**Andreas Leibbrandt\*** and Raúl López-Pérez\*\* (\*University of Zurich, \*\*Universidad Autónoma de Madrid)

**“The Envious Punisher: Understanding Second and Third Party Punishment with Simple Games”**

We design a set of simple games to examine the nature of costly punishment from second and third parties more extensively than existing experiments. Several recent models of social preferences, reciprocity and social norms are investigated. Our experiments show that subjects are motivated to a large degree by envy: Subjects punish opponents who receive a bigger slice of the pie. They even reduce the payoff of by-standers and subjects who choose pareto-dominant alternatives despite that there is no motivation for retaliation. The existence of strictly equal allocations influences punishment; they are punished less whereas deviations from strictly equal allocations are punished more.

Benito Arruñada\* and **Marco Casari**\*\* (\*Pompeu Fabra University, \*\*Purdue University)

**"How enforcement institutions affect markets"**

In an experiment we study market outcomes under alternative incentive structures for third party enforcers. Our transactions resemble an anonymous credit market where lenders can give loans and borrowers can repay them. When borrowers default, judges are free to enforce repayment but are themselves paid differently in each of three treatments. First, paying judges according to lenders' votes maximizes surplus and the equality of earnings. In contrast, paying judges according to borrowers' votes triggers insufficient enforcement, destroying the market and producing the lowest surplus and the most unequal distribution of earnings. Lastly, judges paid the average earnings of borrowers and lenders achieve results close to those based on lender voting. We employ a steps-of-reasoning argument to interpret the performances of different institutions. When voting and enforcement rights are allocated to different classes of actors, the difficulty of their task changes, and arguably as a consequence they focus on high or low surplus equilibria.

Alexander Klos and **Norbert Sträter** (University of Münster)

### **"Global Games and Demand-Deposit Contracts: An Experimental Study of Bank Runs"**

This paper experimentally investigates the global games approach applied to the bank run literature. In laboratory scenarios inspired by theoretical models, subjects receive a noisy private signal about the true fundamental state of the banking system. Subjects employ threshold strategies and we find low rates of deviation from threshold strategies. Increasing the repayment rate in the case of early withdrawal leads to increased thresholds at the individual and the aggregate level, as predicted by the theory. Panic-based runs, probably caused by strategic uncertainty, are frequently observed. Learning, in the sense that thresholds change over time, does not seem to be important. We conclude that the global games approach applied to bank runs leads to valid predictions.

Alessandro Cappellini\* and **Gianluigi Ferraris\*\*** (\*ISI Foundation, \*\*University of Turin)

### **"Social Learning in Financial Markets"**

The strategies in financial markets are often based upon information aggregation. In fact, the traders use and share news to address their behaviours and tune the composition of their portfolios. Our research question concerns the possibility to obtain plausible prices trends, and a sufficient number of trades, through the interaction of agents that have a limited information level, i. e. the market prices and some informal chatting among them. This paper will focus on the role of suggestions interchange and social learning in the traders' decision making process. A focused decision algorithm has been built to drive agents actions, by exploiting the "memetic" paradigm, like it is described in Dawkins, and the knowledge about the humans being mind processes supplied by the neuro sciences. Such an algorithm could be pretended to support a kind of social learning due to the evaluation and evolution phases. During the first phase, the received suggestions, as well as own ideas, are given a value strictly related to their expected performance, whereas in the second phase, better ideas are chosen to be amalgamated to obtain useful inferences. In this way each agent's knowledge evolve toward better performances and, consequently, its suggestions become more useful; since each one's suggestion is spread it could improve other agents knowledge bringing the learning process at a social level. In a mechanist description a market could be drawn as a crowd of people interested in trading stocks, and earning money, with heterogeneous beliefs or expectations on shares trends. They send orders to the market where a routine enqueues, arranges and matches those orders. The matching, or the realization of exchanges, shapes the prices. Such people are always adapting their behaviours accordingly with the information brought by the prices and those obtained from several channels. The stock market has been traditionally considered very sensible to the information spreading, even simple rumours. To perform the research an Agent Based model has been employed, following works of Lux and Marchesi, Arthur, Le Baron, and more recently, of Farmer, Solomon Muchnick,

Scalas, Raberto, Terna, Pellizzari, Dal Forno and Bottazzi. Our platform SumWeb is able to reproduce both Milan and NYSE stock market queuing machinery. Artificial agents into the simulation are representing professional traders which information sources have been limited to the price level, but they can informally chat among them. Early results confirmed the positive answer to the research question: agents with limited information have been able to submit orders capable to maintain alive the market with a plausible price trend, even if no liquidity providers neither market makers have been employed. An evident attribute of our agents is “docility” or, according to Simon, “the tendency to depend on suggestions, recommendations, persuasion, and information obtained through social channels as a major basis for choice”.

**Raffaella Barone\*** and Anna Grazia Quaranta\*\* (\*Università di Lecce, \*\*Università di Camerino)

### **“Banking Competition, Switching Costs and Customer Vulnerability”**

The aim of this paper is to analyze the impact of the emotional factors on the decision taken by current account holders to switch from their own principal bank. For this purpose we use some survey data which enlighten the banking-customer relationship. The questionnaire is composed of two parts: the first one consists of a psychometric test aiming on investigating the individuals’ behavioural attitude; the second one includes some questions on the economic determinants of the bank choice. Cross-tabulations and multiple regression analysis are performed in order to find a relation between the psychology of each interviewee and the acquired economic information on the duration of the deposit.

We find that factors affecting the fiduciary relations with intermediaries and banking location seem to be relevant in explaining the choice not to switch to another bank. Another interesting result is that the customers who declare themselves unsatisfied with their own bank don’t search for better banking services. This appears more evident when customers have a pessimistic attitude. The above results imply that when consumers are characterized by relevant switching costs and are pessimistic, the banking strategy to set prices lower or higher than competitors is not effective in inducing customers to change bank.

**Fabrizio Balassone**, Daniele Franco and Stefania Zotteri (Banca d'Italia)

### **"The Reliability of EMU Fiscal Indicators: Risks and Safeguards"**

The reliability of EMU's fiscal indicators has been questioned by recent episodes of large upward deficit revisions. This paper discusses the causes of such revisions in order to identify ways to improve monitoring. The computation of EMU's deficit indicator involves the assessment of accrued revenue and expenditure and the identification of transactions in financial assets. Both can open margins for opportunistic accounting. However, crosschecks between deficit and changes in gross nominal debt (the other fiscal indicator used in EMU) can reduce the scope for window dressing. Simple comparison of deficit and changes in debt can readily spotlight large inconsistencies in fiscal data. Nevertheless, consistency checks must go deeper than simple comparison, since different items in the reconciliation account between deficit and change in debt can offset each other. Econometric evidence suggests that such offset may indeed have been used to reduce the visibility of deficit-specific window dressing. Attention to the quality of statistics has increased in recent years, also in the context of the reform of the Stability and Growth Pact. In this context, the paper argues that detailed analysis of the reconciliation account between deficit and change in debt is crucial to the effectiveness of monitoring.

Valérie Berenger\* and **Matthieu Llorca**\*\* (\*University of Nice-Sophia Antipolis CEMAFI, \*\*University of Burgundy, LEG/FARGO)

### **"Political determinants of the fiscal sustainability: evidence from six individual developed countries"**

The purpose of this paper is to extend the recent sustainability approach of Bohn (1998, 2004), based on fiscal reaction function, by including political determinants of fiscal policy in six developed countries, namely France, Germany, Greece, Italy, the United Kingdom and the United States. Indeed, Bohn focuses on the response of the primary surplus to accumulated public debt that would guarantee fiscal sustainability as a test for sustainability. Thus, a sufficient condition for sustainable fiscal policy demands that policy makers increase the primary surplus as a reaction to an increase in the debt income-ratio accumulated at the end of the previous period, and that this reaction is sufficiently strong. Most of the empirical studies estimating the reaction of the primary surplus to debt levels focused on the American case and other industrial countries<sup>3</sup>: the United States (Bohn, 1998 and 2004; Creel and Sterdyniak 1999, Canzoneri et al. 2001, Greiner and Kauermann 2007), member States of the European Union (Creel and Sterdyniak 2000, Debrun and Wyplosz 1999, Ballabriga and Martinez-Mongay 2003, 2005 and 2006; Greiner, Koeller and Semmler (2005), Collignon, 2006), Japan (Doi, 2004; Shizume, 2007). However, very few papers (Neck and Getzner, [2001]; Haber and Neck [2006] for the case of Austria; De Haan, Sturm and de Groot [2004] for the case of the Netherlands) have enriching the Bohn's fiscal sustainability model with political variables, whereas it is of particular interest

to explore the politico-economic determinants for the growth of the central government's debt. Indeed, theoretical arguments taken from "political business cycle" theories (Nordhaus, 1975), such as the electoral and partisan cycle or the government fragmentation<sup>6</sup> can explain the development of public debt. As a result, the main purpose of this article is to study the political determinants of fiscal sustainability in each country by introducing political variables such as the ideologies of political parties, the political electoral cycles and the government coalition, taking the primary surplus as the variable to be explained. To our best knowledge, no paper has tackled the issue of fiscal sustainability in line with the recent literature in fiscal reaction functions, by testing sustainability and identifying its political potential determinants in six individual developed countries.

The paper is organised as follows: section 2 examines the theoretical framework, namely the Bohn's fiscal sustainability model and the introduction of political variables. Section 3 provides a data description and reports the econometric findings. Using OLS, over the period 1970-2005, it appears first that by using fiscal reaction function, fiscal policy is sustainable in the United States, United Kingdom, Greece (from the period 1991 to 2005), France (by including a structural break in 1992) and Italy but not for Germany. Second, we find budget electoral cycle and partisan effects in France, Greece and Italy (weak partisan effect) but not in the rest of our countries. Moreover, the hypothesis that the deficit is higher for coalition governments than it is for unified governments is confirmed only for France (left coalition over the period 1997-2002).

Gabrielle Fack and **Camille Landais** (Paris School of Economics)

### **"Are Fiscal Incentives Towards Charitable Giving Efficient ? Evidence from France"**

The literature in public economics has long tried to know whether fiscal incentives were an efficient way of boosting private philanthropy. While it is usually acknowledged that fiscal incentives influence positively the level of charitable contributions made by individual taxpayers, their precise impact is still debated. The main reason of such a debate is that empirical pitfalls still cast doubt on estimates that are exclusively made on US & UK data where the fiscal system towards charitable contribution is a tax deduction from taxable income. As a matter of fact, the "price" of a gift in such a tax system varies with the marginal tax rate, and therefore with the income level. Thus, it is extremely difficult to disentangle the price and the income effects, and estimates also suffer from a serious endogeneity problem : taxpayers could tend to give more in order to fall in a lower tax-bracket. Because of those drawbacks, estimated elasticities vary widely in the abundant empirical literature, according to estimation strategies : Feldstein & Taylor (1976) find a price elasticity close to -1.2 on cross-sectional estimates on 15 000 US taxpayers while Randolph (1995) trying to disentangle the effect of permanent & transitory income variations finds a -0.5 permanent price elasticity and -1.5 transitory price elasticity. Auten & al., (2002) using the same dataset but with a different specification find a -1.26 permanent price elasticity and -0.4 for the transitory price elasticity ! Our paper proposes new estimations that avoid the usual empirical pitfalls encountered in previous literature by focusing on the French tax reduction system. In this tax reduction system every taxpayer gets the same reduction rate whatever its income or the level of its gift may be.



Therefore the endogeneity problem of price variations disappear. Since France has made the political choice of strongly supporting private charitable contributions, the level of the "charitable reduction" rate has moved strongly upward in 2003 (+20%), and we use this variation in order to identify the elasticity of charitable giving to tax incentives following a pseudo-natural experiment framework. Our data come from an original and unique sample of the French "Direction Generale des Impots" with more than 500,000 taxpayers every year and exhaustive sampling at the upper-end of the income distribution. We estimate the effect of the reform using the three-step censored quantile regression estimator proposed by Chernozhukov and Hong (2002). As a quantile regression estimator, this estimator has the advantage of not relying on heavy distributional assumptions, and is very robust to outlier points. The three-step estimator proposed by Chernozhukov and Hong has moreover the advantage of being easily computable and fits well very large sample with heavy censoring and many regressors. Our results suggest that the elasticity of charitable giving is very heterogeneous among taxpayers. Middle income taxpayers have a price elasticity that is very close to 0 while the first percentile of taxpayers have strongly reacted to the reform with a price elasticity superior to 1. The overall effect of the reform on charitable contributions is however not sufficient to guarantee that the total increase in contributions is greater than the loss in tax revenues.

**Juan González Alegre** (European University Institute, Florence)

**"An Evaluation of EU regional policy. Do Structural Actions crowd-out Public Spending?"**

One third of the European Union budget is devoted to Structural Actions, with the aim of enhancing economic growth in less developed areas. Thirty years after the creation of the European Regional Development Fund (ERDF) there is no consensus in the evaluation of its effectiveness. In this paper we test whether EU Structural Funds crowd-out public investment in the member States. Using annual data from fifteen member countries, from 1993 to 2005, we conclude that there is no total crowding-out and that public investment in the member countries makes up around 60% of the increase in EU funds. In a posterior analysis with data from the Spanish regions the results are also robust and reveal that the implementation of the Cohesion Policy might encourage through a similar pattern investment at other levels of public administration. We interpret the aforementioned results using a extender neoclassical model of growth with public grants.

**Lenka Gregorova** and Martin Gregor (IES Charles University, Prague)

**"Competition of Municipalities via Spending Composition: The Case of the Czech Republic"**

Municipalities normally compete for tax revenues only indirectly, via non-taxing decisions. Their main instrument of competition is composition of the public spending, which

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strategically affects location decisions of mobile workforce and businesses in neighbouring regions. We provide a theoretical model explaining incentives of municipality to increase public spending from which mobile workforce benefit and seek evidence of strategic interaction between municipality spending in the case of 205 municipalities in the Czech Republic.

**Stijn Goeminne** and **Carine Smolders** (University College Ghent)

**“Vote expectations and pre-electoral tariff cuts in Flemish municipalities”**

Using data covering 3 election moments (1988-2000) for 294 Flemish municipalities we examine whether the decision to cut tariffs before elections depends on the government's expectations of staying into office. Election moments are central to both the political budget cycle literature and the strategic debt models. The combination of both theories could suggest that, at least in theory, both winning and loosing governments seem to benefit from pre-electoral tariff reductions and as such we expect to find a great many municipalities to engage into tariff cuts. The dataset however shows this is clearly not the case. We argue that the differences in the fiscal policy reaction of governments facing elections might have to do with their expectations of staying into office. In our analysis we make the decision to change tariffs dependent on the expected vote percentage of the government party (parties). As we do not possess reliable ex ante data on the perceived re-election probability, we estimate a vote-function to predict the percentage of votes. Our analysis shows that tariff reductions in election years are more prone when governments expect not to reach majority again in next elections.

**Sanna Nurmikko** (University of Essex)

**“Survival of Political Leadership”**

We construct a game-theoretical model that addresses the question of how corrupt, authoritarian leaders and their regimes survive in societies with organised opposition and recurrent elections. We argue that these leaders may use political violence in order to increase their chances of re-election. In a collusive equilibrium, the leader can, in form of bribery, share the public resources with the army, to which the latter responds by producing politically motivated violence. We find that such an equilibrium is more likely, when the leader is sufficiently patient, but the army is short-sighted; when the public resources available to the leader are sufficiently large; when army's punishment in the opposition regime is mild enough but incumbent is threatened by a more severe punishment; and when army's salary in opposition regime is not too high. The model also predicts that given the existence of a collusive agreement, larger public resources lead to higher levels of violence and more corruption. In contrast, increasing the leader's future punishment suggests lower intensities of violence and corruption. A higher salary and a more severe punishment for the army associate with less violence but more corruption. Finally, a more patient leader and a more impatient army will contribute to more political violence and increased corruption.

Florian Schuett and **Alexander Wagner** (University of Toulouse)

**“Evaluating political decision makers: With the benefit of hindsight bias?”**

In this paper we present a political-agency model where voters exhibit a cognitive deficiency known as hindsight bias: after the uncertainty about an event is resolved, they think that the realized outcome was more foreseeable than it actually was. For their re-election decision, voters evaluate the politician's ability based on the history of observed actions and outcomes. High ability is defined as an informational advantage over voters as to the welfare maximizing policy, creating incentives for low-ability politicians to deviate from the optimal policy choice in an attempt to be perceived as possessing superior private information. We show that, because hindsight biased voters are less impressed than rational voters when a reform succeeds in spite of public pessimism, the bias acts as a discipline device on low-ability politicians. It also increases political turnover compared to fully rational evaluation. While hindsight bias benefits voters in terms of politicians' discipline, its effects on selection are ambiguous. These insights may be relevant to other principal-agent relationships in which hindsight bias cannot be eliminated through explicit ex ante contracts, e.g. promotion decisions in organizations.

**Galina Zudenkova** (Universidad Carlos III de Madrid)

**“Income Redistribution under Sincere Lobbying Formation”**

This paper develops a new model of endogenous lobbying formation to study the impact of lobbying on income redistribution policy. Individuals are assumed to behave sincerely while deciding on whether to take part in lobbying, modelled as menu-auction. We show that the equilibrium structure depends on the policymaker’s identity, that is, less egalitarian is a policymaker, more extreme income levels have individuals joining lobbying activities. Moreover, no lobbies are formed in case of the policymaker’s favouring just one of the special interest groups.

**Graziella Bertocchi** (Università di Modena e Reggio Emilia, CEPR, CHILD and IZA)

**“The Enfranchisement of Women and the Welfare State”**

We offer a rationale for the decision to extend the franchise to women within a politico-economic model where men are richer than women, women display a higher preference for public goods, and women’s disenfranchisement carries a societal cost. We first derive the tax rate chosen by the male median voter when women are disenfranchised. Next we show that, as industrialization raises the reward to mental labour relative to physical labour, women’s relative wage increases. When the cost of disenfranchisement becomes higher than the cost of the higher tax rate which applies under universal enfranchisement, the male median voter is better off extending the franchise to women. A consequent expansion of the size of government is only to be expected in societies with a relatively high cost of disenfranchisement. We empirically test the implications of the model over the 1870-1930 period. We proxy the gender wage gap with the level of per capita income and the cost of disenfranchisement with the presence of Catholicism, which is associated with a more traditional view of women’s role and thus a lower cost. The gender gap in the preferences for public goods is proxied by the availability of divorce, which implies marital instability and a more vulnerable economic position for women. Consistently with the model’s predictions, women suffrage is affected positively by per capita income and negatively by the presence of Catholicism and the availability of divorce, while women suffrage increases the size of government only in non-Catholic countries.

**Marina Grusevaja** (Universität Potsdam)

**“Competition Law in Transformation: Impact of Transplanted Competition Law on the Effectiveness of Competition Policy as Economic Institution in Russia”**

As the process of transformation in Russia began at the end of 1989, there was no consensus about the range and the sequencing of reform to successfully accomplish the

transformation process with a free market economy established. Nowadays Russia is recognised worldwide as a free market economy. However, the complex institutional change is still far away of being accomplished. This is evident by the analysis of the competition policy, one of the most important economic institutions to protect the free market. After a long transformation period is effectiveness of Russian competition policy still low: the old producing structures sustained despite the privatisation, markets are mostly signed by high concentration and abuse of dominant market position, the existing competition law and the law enforcement procedure are ineffective and can hardly provide a long-term positive effect. Even the latest competition law reform of 2006 does not seem very promising. The paper analyses the process of introduction and development of the competition policy in Russia, based on transplanted competition law, from the beginning of transformation until the last legal reform in 2006. The scope is to examine critically the legal transformation as aspect of economic reform as well as economic impact on legal reform. The neoclassical economic theory considers institutions as exogenous factors. According to this approach it would be enough to transfer or transplant successfully working institutions from developed countries to ensure their effectiveness in a new, different institutional surrounding. The transformation process in East and Middle Europe revealed though this approach not to be much promising. Regarding institutions as endogenous entities it is a necessary consequent step following the evidence of the wide variations existing in the impact of law and institutional reform across countries. To enable a better understanding of the mechanisms underlying development we need further to distinguish the institutional development in two processes, which strongly interplay: the change of formal (among them legal) and informal institutions that can occur simultaneously, consecutively or divergent. This means that legal reform have to rely on informal preconditions given in the transformation country.

**Masoud Nili** and Ideen Ali Rihai (Sharif University of Technology, Azadi)

### **"Democratization in Resource Dependent Economies: A Theoretical Framework"**

Recent theories of democratization argue that social conflict over the *redistribution* of income is the key for understanding democratic transition and consolidation. The application of this approach for the explanation of the failure of transition to democracy and the stability of authoritarianism in rentier states, however, has provided ambiguous results. This paper, considers a situation in which social conflict is merely over the nature and the extent of the *distribution* of natural resource rents (thus conflict over the redistribution in non-resource sector of the economy plays no major role in the society). Building on Acemoglu and Robinson's theory of democratization (2006), the paper shows that anti-democratic effects of resource dependence are conditional. The results indicate that in equilibrium, different political outcomes including revolution, consolidated non-democracy, repression and democracy are possible. The extent of development in non-resource sector, the level of inequality and the magnitude of resource rent and its boom and bust, are structural determinants of political equilibrium.

**Robin Pope**,\* Reinhard Selten,\* Johannes Kaiser\* and Jurgen von Hagen\*\*  
(\*Experimental Economics Laboratory Bonn University, \*\*Institute for International Economics, Bonn University)

**“The Underlying Cause of Unpredictability in Exchange Rates and Good Models of Exchange Rate Regime Selection”**

Variance of exchange rates around predictions can be from 1) undiscovered fundamentals, 2) efficient markets, 3) destabilising speculation, or 4) regime and personality differences in the heuristics used in the stage of evaluating alternatives. Field and experimental evidence identifies 4) as the underlying cause. Variance effects prior to the resolution of risk damage macroeconomic management but are excluded by expected utility theory wherein utilities attach only to the segment of the outcome flow after risk is passed. To include the evaluation stage and such damage from variance, the authorities can use models within SKAT, the Stages of Knowledge Ahead Theory.

**Tobias F. Rötheli** (University of Erfurt)

**“An Experimental Comparison of Monetary and Barter Exchange”**

A classical proposition in monetary theory suggests that monetary exchange is socially superior to barter exchange because agents' optimization is simplified by the use of money. In a monetized economy, so the argument goes, agents need to consider a much smaller number of prices than in a barter economy. We experimentally explore this proposition and find that indeed money exchange does indeed offer a significant advantage: agents tend to make transactions resulting in higher utility under monetary exchange than under barter exchange. Moreover, when studying the effects of the transition from monetary exchange to barter exchange and vice versa we find that the former transition which tends to occur with high (or hyper-) inflation is particularly costly while the latter leads to immediate welfare gains. The laboratory findings indicate that government has a role in promoting a common unit of account and possibly in the production of the medium of account.

Anna Ruocco and **Ciro Rapacciuolo** (Centro Studi Confindustria Roma)

**“Did the Economic Policy Matter for the Euro Area Growth? Some Empirical Evidence”**

During the last years the euro area has grown at a much lower rate than in the previous decade and also lower than the United States. This different performance can be explained by structural and institutional factors. Still, a key question is to understand if the

mix of monetary and fiscal policies played a role. Did the policy mix aim to sustain growth and the stabilization of the cycle, or has been focused only on public finance consolidation and price control? This paper analyses the nature of economic policies in the euro area and their interactions. First of all we investigate the historical origin and the present validity of the Maastricht Treaty rules, then we calculate a synthetic measure (fiscal stance) to evaluate the impact of budgetary maneuvers on the economic cycle. We show that fiscal policies in the euro area aimed at respecting the numerical targets imposed on deficit, without paying attention on the quality of consolidation. As a result the fiscal policy neither reached the goal of a stable public finance consolidation nor has been supportive to growth in the area. The analysis of ECB monetary policy is based on an analogous synthetic measure, the monetary stance. Being of more rapid implementation and having a unique decisional centre, monetary policy is in itself more suitable for having an anti-cyclical role for the area economy, even if it also does not have it as a goal. We show indeed that, pursuing and obtaining price stability, monetary policy had also an anti-cyclical impact, in particular supporting growth during weak periods. The interaction between the two measures of policy stance provides a tool for assessing the impact of the economic policy mix in the euro area on the economic cycle. It emerges that the developments in the two policy stances have been in many respects specular to each other. Thus, their effects on the cycle, at least partly, compensated with each other. Concluding, in the last years euro area economic policy did not support growth as much as it was needed and not even as much as it could have been done.

**Florina Semenescu** (Laboratoire d'Economie d'Orléans)

### **"Monetary and Fiscal Policy in an Open Heterogeneous Monetary Union"**

This paper analyses, at a theoretical level, the long run effects of unanticipated fiscal and monetary policy shocks in an open currency union with heterogeneous interest rate transmission channels. Governments act on public expenditures and the common central bank takes its decisions by means of an interest rate Taylor rule. Consequently, the LM curve disappears from the model and the interest rate rule is integrated in a dynamic macroeconomic analysis.

This study is conducted at two different levels: *union-wide level* and *national level*. At a *union-wide level*, we find that the stationary output does not depend on monetary policy decisions of the central bank, but only on fiscal decisions of governments. An increase in government spending is able to improve the long-run output without generating inflation, while the monetary policy is able to reduce inflation without inhibiting the real activity. Moreover, if an inflationary bias occurs in the union, an expansionary fiscal policy can improve the long-run output and, in the same time, reduce the long-run inflation. This unusual result is explained by the fact that the increase in the government spending improves the long-run output, reduces the long-run inflationary bias and implicitly the long-run inflation in the union. As we model an open monetary union, the main role in explaining these movements of the steady state goes to the external terms of trade, which causes different changes in the aggregate demand and supply. At a *national level*, we find that independent fiscal policies risk increasing output divergences in the union, which is



not a suitable effect. That's why a strong cooperation between governments within the union or the creation of a multinational fiscal supervisor could be a good idea.

In a macrodynamic context, the adjustment of the union towards a new steady-state, after a macroeconomic shock, is related to an initial overshooting of the real exchange rate, like in Dornbusch (1976). The inflationary bias assumption becomes more interesting in this context, because it introduces, in a way, the discussion on the stabilization power of the policy-mix in the union. It seems that using an expansionary fiscal policy in a more restrictive monetary policy context allows a better stabilization of the aggregate variables during their adjustments towards the steady state than in a more permissive monetary policy context. As for the national variables, their reaction to common macroeconomic shocks is asymmetric during the adjustment process, because of the heterogeneous transmission of the common interest rate within the union. One intertemporal reversal in the relative effectiveness of the macroeconomic policy on the output is highlighted across member countries, exactly like in Clausen & Wohltmann (2005), who propose a similar dynamic analysis, in the case where the central bank controls monetary aggregates and doesn't follow an interest rate Taylor rule.

**Vivian Lei**,\* Steven Tucker\*\* and Filip Vesely\*\*\* (\*University of Wisconsin-Milwaukee and City University of Hong Kong, \*\*University of Canterbury, \*\*\*University of Wisconsin-Milwaukee and Hong Kong University of Science and Technology)

### **"Forgive or Buy Back: An Experimental Study of Debt Relief"**

A large share of the debt claims owed by the world's poorest countries has been cancelled through the HIPC (highly indebted poor countries) debt relief initiative. It is believed that, with less debt burden, the HIPC will be able to devote more resources to investment and thus promote their own growth and benefit their creditors in the long run. But does debt forgiveness really provide the best incentive for those countries who suffers from debt overhang—meaning the presence of an existing, inherited debt sufficiently large that creditors do not expect with confidence to be fully repaid? In this paper, we adopt experimental methods to study the impact of two different schemes for relieving debt. The two schemes we consider here are debt forgiveness and debt buyback, with the latter being more market-based since it allows indebted countries to repurchase their own debt on the secondary market at a discount. We find that creditors tend to reduce more debt when the relief takes the form of debt forgiveness than that of buyback. To payoff their debt, debtors under the scheme of forgiveness are more willing to incur higher costs to undertake a risky investment project than that of buyback. As a result, both creditors and debtors are worse off under the scheme of debt forgiveness.

**Abdoul Ganiou Mijiyawa** (CERDI, Clermont-Ferrand)

**“Inflation and Democracy in Former Extractive Colonies: Analysis with Instrumental Variables”**

This paper analyses the link between inflation and democracy in developing countries (DC) basing on the median voter theorem. The argument of this paper is that democracy is likely to increase inflation in DC because of low aversion of the median voter against monetary creation, and her weak preference for stabilization policies. I thus identify monetary, fiscal, and trade openness policies like transmission channels of the effect of democracy on inflation. In order to establish a causal relationship between inflation and democracy, I instrument democratic institutions with the date of political independence. The application of the criterion of Stock and Yogo (2002, 2005) for weak instrumental variable shows that the date of independence is a good instrument for democratic institutions in my sample of DC. I find a positive causal relationship between democracy and inflation over the 1960-2003 period, in a sample of 62 DC former extractive colonies including 32 African countries. This result is observed as well in the whole sample as in that of African countries and resists to several other robustness checks. It appears that the positive relationship between inflation and democracy in my sample of DC is not due to the difficulty of these countries to control money supply, but rather to their difficulties to set up stabilization policies when they become more democratic. A case study based on Chile, Ghana, and Sri Lanka makes it possible to better illustrate my result relating to the relationship between inflation and democracy in DC.

This paper is related to the literature of political economy of inflation, and tackles particularly the question of the effect of political regime type on inflation, question analysed according to two different approaches in literature. In the “populist” approach, inflation is the result of public demand for transfers financed by inflation tax, suggesting that inflation and democracy are positively correlated. In the “state capture” approach, inflation is a result of pressures from elites who derive private benefits from monetary creation, suggesting that democracy and inflation are negatively correlated. There are two main contributions of my paper. Firstly, my paper suggests a new instrumental variable for political institutions. Secondly, my paper shows that the increase in money supply is not the cause of the positive relationship between inflation and democracy in my sample of DC, but rather the difficulties of these countries to set up stabilization policies. Thus, my paper puts forward the need for reconsidering the way to implement policy reforms in DC, otherwise, economic policies reforms will be a challenge for DC particularly at this moment that the majority of DC begin their democratic Transition.

I essentially use instrumentation strategy in this paper because of risk of endogeneity of democratic institutions. Indeed, democratic institutions can affect inflation and vice versa. The empirical strategy used in this paper comprises three steps. I first estimate the bivariate relationship between inflation and democracy. At second step, I respectively add three proxies for macroeconomic policy variables to see whether the bivariate relationship resists. At third step, I take into account the other determinants of inflation that are often mentioned in the literature to check the robustness of inflation and democracy link.

The index of price consumer is the measurement of inflation that I use. The broad money is my proxy for monetary policy, the fiscal balance is my proxy for fiscal policy. The sum of import and export is my proxy for trade openness policy. All the policy variables are expressed as a percent of GDP. The inflation and policy variables are from World Development Indicators database (2005) and International Financial Statistics. I use data

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from Polity IV and those from Freedom House for democracy measurement. In this paper, the broad money is the proxy for money supply and is directly related to inflation tax. The fiscal and trade openness policies are considered as stabilization policies in the sense that they can contribute to lower inflation. I run my different models with five years pooled data and a sample of 62 DC former extractive colonies. Specifically my sample is constituted of African, Latin American, and Asian countries. Acemoglu et al. (2001) called the ex-colonies of these regions former extractive colonies. The choice of my country sample is justified by data availability and the possibility that it offers to me to get a natural experiment instrumental variable for democratic institutions. Moreover, my sample is sufficiently representative of developing countries.

**Vilen Lipaton** (European University Institute, Florence)

**“Tax Evasion and Coordination”**

We consider corporate tax evasion as a decision affecting business partners. There are costs of uncoordinated tax reports, both in terms of catching inspectors' attention and running accounts. If these costs are small, there exist a unique Nash equilibrium of the game between the tax authority and a population of heterogeneous firms. In this equilibrium, the mis-coordination costs enhance non-compliance if and only if more than 50% of the firms are cheating. This provides one rationale for developing countries to be cautious with employing refined auditing schemes and for developed countries to promote complicated accounting procedures.

Stefania Ottone and **Ferruccio Ponzano** (University of Eastern Piedmont)

**“Laffer curve in a non-Leviathan scenario, a real effort experiment”**

The aim of this paper is to look for the presence of the Laffer curve in a non-Leviathan state using tax rates of 30%, 50% and 70%. We gave the players the opportunity to choose their effort level both under a Welfare – State scenario and a State – of – Nature contract. The main evidence is that a tax rate of 70% is extremely unpopular and significantly decreases subjects' effort without any benefit on the tax revenue. On the other hand, an increase of the tax rate from 30% to 50% does not reduce the per capita GDP while increasing the tax revenue.

**Jan Šíroký** and **Kateřina Maková** (VSB-Technical University of Ostrava)

**“Theoretical approaches to measuring of the tax progressiveness (with the practical application)”**

The aim of this paper is to show the frequently ambiguous demarcation of the tax progressiveness. It responds to changes or suggestions of changes in the construction of the personal income tax in some European Union states in last years. The theoretical part of the paper, that should lead to the discussion showing that the tax progressiveness is the category of political economy, is also applied to the practical part where the tax progressiveness is calculated in chosen countries of the European Union and results of these analyses are interpreted.

**Maria Vyshnya** (Kyiv Economics Institute)

**“Accumulation of Tax Arrears in Ukraine: Liquidity Problem or Rent – Seeking?”**

This paper is aimed to empirically test several hypotheses about the nature of tax arrears in Ukraine. First, the government may tolerate tax arrears in order to minimize negative spillover effects that might result from bankruptcy of the distressed debtors. Second, in transition countries tax arrears may be utilized as an instrument of industrial or regional policy, since the size of consolidated budget complicates direct government subsidization. Finally, if politicians are driven primarily by personal revenue consideration, the size of tax debt may depend on bargaining potential of firms.

The paper provides evidence that the major factor that contributes to escalation of tax non-payments is corruption. Firms located in regions where corruption exceeds the country – average level do accrue tax arrears more intensively and do not cover their regular payments on restructured tax debt. Additionally, accumulation of tax arrears is also backed by political reasoning. In election years profitable companies located in “pro – power” regions resume paying taxes and switch to lobbying. On the contrary, opposition regions are enforced to cover their tax liabilities promptly, which implies that tax debt accrual is used as a mechanism of redistribution of wealth between opposition and pro-power territories. However, we did not find evidence that toleration of tax arrears is aimed to minimize negative spillover effects and mitigate social tension, or to support perspective economic agents.

**Simone Pellegrino**,\* Massimiliano Piacenza<sup>o</sup> and Gilberto Turati\* (\*Università di Torino  
<sup>o</sup>Ceris-CNR)

**“The runaway taxpayer. Or: Is prior audit effective in reducing tax evasion?”**

In this paper we study how “prior audit” affects individual behaviour in terms of tax compliance. We provide a theoretical framework, considering a situation in which an individual has already decided to evade taxes and knows that sooner or later the Tax Authorities are looking for her for notifying the due amount of taxes. We concentrate on the decision to move in order to avoid notification by the collection agency, and derive the optimal number of times an individual should move equalising marginal costs and benefits of the decision. Our empirical analysis is based on real data of an Italian collection agency in the period 2004-2007. Our results show that the previous notification reduces the probability to move, but its cost is not enough to correct the individual incentive to escape notification.

**László Paizs** (Institute of Economics of Hungarian Academy of Sciences)

**“Asymmetric diesel tax competition: theory and evidence for EU countries”**

This paper assesses spatial competition in diesel taxation among European governments. By adding an extension to the theoretical model of Nielsen (Nielsen 2001) we demonstrate that asymmetric competition – i.e. small countries undercutting large countries – implies that small countries respond less strongly to tax-changes in their neighbours than large countries. We then estimate the fiscal reaction functions for national governments employing a first-difference regression model with a weighting scheme constructed from motor traffic density data at national borders. Using data from 16 countries (EU-15 minus Greece plus Norway and Switzerland) between 1978 and 2005, we find evidence that European governments set their diesel tax interdependently, and moreover, that small states tend to set lower taxes than large states.

**Mohammad Reza Farzanegan** (Dresden University of Technology)

**“Illegal Trade in the Iranian Economy: A MIMIC Approach”**

This study investigates the main causes and indicators of smuggling in both import and export sections of the Iranian Economy and estimates of absolute index of smuggling in Iran during the period of 1970-2002. To this effect, I have applied the Multiple Causes - Multiple Indicators (MIMIC) econometric modelling by LISREL software which enables me to do a comprehensive analysis of the latent variable of smuggling. The main results of this paper indicate that the rate of fine for smuggling and the total unemployment rate have negative and significant effects on smuggling and that the tariff burden has a positive effect on smuggling. Regarding the measurement part of the model, smuggling has a negative effect on real governmental revenues and import price index. Furthermore, the positive effect of smuggling on the petroleum product consumption is also significant.

Abigail Barr and **Danila Serra** (University of Oxford)

**“Culture and Corruption”**

Working with a sample of individuals from 43 countries, including some of the most and least corrupt in the world, we run an experiment in which: ‘private citizens’ have to decide whether and how much to offer ‘public servants’ in exchange for corrupt services; ‘public servants’ have to decide whether and how much to accept; and offered and accepted bribes do harm to other members of society. We can predict who, among the younger members of our sample, will offer bribes with reference to the level of corruption prevailing in their home countries. And, by comparing behaviour across treatments, we can identify the effect of an internalized social norm or preference for not engaging in bribery because it is harmful to society on behaviour. We conclude that corruption is, in part, a cultural phenomenon.

**Danila Serra** (University of Oxford)

**“Bargaining for bribes: The role of moral costs and imperfect information”**

A corrupt transaction is often the result of bargaining between the parties involved. This paper models bribery as a double auction where a private citizen and a public official strategically interact as the potential buyer and the potential seller of a corrupt service. Individuals differ in the internalized moral cost generated by corruption. Additionally, the total cost associated with corruption is subject to strategic complementarities. We ask under which conditions we can observe honesty or systemic corruption in equilibrium, or multiple equilibria, when individuals have either perfect or imperfect information with



respect to the “intrinsic corruptibility” of their corruption partner. We find that corruption is lower when potential bribers and potential bribees are uncertain regarding the corruptibility of their opponent. This paper therefore provides theoretical support to anti-corruption strategies, such as staff rotation in public offices, aimed at decreasing the social closeness of bribers and bribees.

**Ting Jiang** (Tillburg University)

### **“Mind the Corruption Club Trap”**

The enforcement of endemic corruption in developing countries relies heavily on the existing network, or club, within the government sector. Such a club is to be maintained and reinforced by bribes circulated internally as well as heavy punishment imposed on the ones who take the initiative to exit the club. Exit cost in this sense prevents agents, who intrinsically wish to exit the corruption club, from exiting. Amnesty, or leniency in this paper, is to be modelled to analyze its effect on lessening corruption through eliminating the exit cost, as well as reducing the agent’s expected payoff of entering the club under certain conditions.

**Fadi Kansa** (Université Paul Cézanne, Aix-Marseille III)

### **“Wages and Penalties in Fighting Hierarchical Corruption (The Case of Tax Administration)”**

The general aim of this paper is to contribute to the study of factors that decrease corruption in the public services and especially in tax administration. A matter of particular interest will be the effect of raising civil servants’ wages and penalties on the behaviour of agents in the case of tax evasion. We will also look into the role of civil society and the dismissal sanction in a country of high level of unemployment in the fight of corruption. Using a model of partial analysis referring to a typical agency problem, we will demonstrate how the coalition of civil servants and the firm may be broken in order to curb tax evasion and the incidence of corruption.

**Sebastian Freille**,\* M Emranul Haque\*\* and Richard Kneller\* (\*University of Nottingham, \*\*University of Manchester)

### **“Decentralisation, corruption and economic development”**

**Friday 28th September – 17:00-19:30**  
**SESSION C1 – CORRUPTION**

This paper studies the relationship between corruption and decentralisation from a macroeconomic perspective. Providing a macroeconomic analysis may help to understand better the links and channels between corruption, decentralisation and economic development. The analysis presented in this paper is unique in that provides an explicit formulation of the relationship between corruption, decentralisation and economic development. We bring together the theoretical and empirical predictions of both the traditional and modern fiscal federalism theories and find that the effect of decentralisation on development depends crucially on the existence and extent of corruption. Without corruption, decentralisation is unambiguously the best outcome for development. However, if corruption is pervasive, decentralisation may be associated to lower capital accumulation than centralisation. This result is more likely to be observed in developing countries with weak local political institutions and significant information asymmetries between the government and local administrations.

**Lisa Grazzini** and Alessandro Petretto (University of Florence)

**“Voting on Devolution in a Federal Country with a Bicameral National System”**

We analyse voting on devolution of responsibilities for the provision of public goods to local governments in a federal country, with a bicameral national legislature. We suppose that devolution is a fiscal reform which reduces federal public expenditure on a national public good, and simultaneously increases transfers which regions receive from the State via a tax sharing mechanism. This allows regions to augment their aggregate expenditure on a local public good which substitutes the reduction in a national public one. We show under which conditions each chamber of the national parliament votes separately in favour or against devolution, and the conditions prompting the Federal government to carry out or to drop such a reform.

**Wolfgang Höechtl**,\* Rupert Sausgruber\* and Jean-Robert Tyran\*\* (\*University of Innsbruck, \*\*University of Copenhagen)

**“Selfishness, Fairness and Voting for Redistribution”**

This paper presents an experiment in which subjects vote on redistribution from a rich minority to a poor majority. Although we observe that the majority of subjects exhibit social preferences, the outcome of the voting is as if subjects were materially self interested. This finding is robust with respect to a wide range of changes in the size of the electorate. Furthermore it is robust to a change in the voting rule from direct democratic to representative voting. It is also robust to whether the distribution of endowments is determined by luck or by individual performance. Overall, we identify a class of democratic redistribution choices in which social preferences do not matter.

**Serguei Kaniovski** (Austrian Institute of Economic Research (WIFO))

**“The Exact Bias of the Banzhaf Measure of Power when Votes are Not Equiprobable and Independent”**

I discuss a numerical scheme for computing the Banzhaf swing probability when votes are not equiprobable and independent. Examples indicate a substantial bias in the Banzhaf measure of voting power if either assumption is not met. The analytical part derives the exact magnitude of the bias due to the common probability of an affirmative vote deviating from one half and due to common correlation in unweighted simple-majority games. The former bias is polynomial, whereas the latter is linear. I derive a modified square-root rule for two-tier voting systems which takes into account both the homogeneity and the size of constituencies. The numerical scheme can be used to

calibrate an accurate empirical model of a heterogeneous voting body, or to estimate such a model from ballot data.

Carla Marchese\* and **Marcello Montefiori\*\*** (\*Università del Piemonte Orientale, \*\*Università di Genova)

### **“Voting the public expenditure: an experiment”**

This paper is intended to study the individual's strategic behaviour in social choices when the quantity of a public good is set by the mean vote procedure, i.e. the social choice is represented by the mean of the quantities chosen by the citizens. It is assumed that everyone knows also the tax burden that she will bear as a function of the quantity chosen by the collective— so that the individual utility only depends on the quantity of the public good. An experiment has been run in order to test the extent of the strategic bias that arises in the individual vote. In particular two conflicting theoretical predictions are available in the literature on this purpose: Ehlers et al. predict that sincere disclosure of preferences will arise as long as the size of the group grows large, since the information costs will induce a form of threshold strategy-proofness while Renault and Trannoy predict widespread strategical extremist behaviour. After a discussion of the theoretical problems involved by mean voting, we present a laboratory experiment to test which predictions, if any, are supported by data and in particular whether the mean rule actually prompts sincere revelation of preferences or not, and in the latter case if extremist behaviour prevails. The experiment is aimed also at testing the effects of the mean voting rule upon social welfare. The experiment has been run using 80 participants assigned, in turn, to groups of 2, 4 and 8 people. Participants are invited to voting for their preferred amount of a public good in the interval [0-150]. They receive payoffs based on single peaked utility functions which are assumed to describe each participant's net benefit as a function of the amount of the public good. During the experiment, agents always, i.e., from round to round, change randomly their utility (i.e. payoff) and are sorted randomly in groups.

**Selim Jürgen Ergun** (Universitat Autònoma de Barcelona)

### **“From Plurality Rule to Proportional Representation”**

I consider the decision of a parliament that might change the electoral system for the forthcoming elections from plurality rule to proportional representation. Parties are office-motivated. They care about winning and about the share of seats obtained. I analyze two, three and four party situations. If the government is formed by a single party and parties expect that each party will obtain the same share of votes in the next election the electoral rule will never be changed. I consider two different scenarios of how parties in the government share the spoils of office: Equally or proportionally to their share of seats. For three parties, if the government is formed by a coalition and spoils of office are shared equally, the electoral rule is changed if and only if it is in the interest of the second largest

party whereas if spoils are shared proportionally a change never occurs. For four parties a change might occur even when spoils are shared proportionally; the second largest party still plays a key role in some cases and the electoral rule change may also affect the composition of the new government. With more parties a change is possible for larger thresholds of necessary seats.

**Giuseppe Attanasi**, Luca Corazzini and Francesco Passarelli (Università Bocconi Milano)

### **“Voting as a lottery”**

Voting is a lottery in which an individual wins if she belongs to the majority or loses if she falls into the minority. The probabilities of winning and losing depend on the voting rules. The risk of losing can be reduced by increasing the majority threshold. This however has the negative effect of also lowering the chance to win. We compute the individual's preferred majority threshold, as a function of her risk attitudes, her voting power and her priors about how the other individuals will vote.

We find that the optimal threshold is higher when an individual is more risk averse, less powerful, and less optimistic about the chance that the others will vote like her. De facto, raising the threshold is a form of protection against the higher risk of being tyrannized by an unfavourable majority.

Veronika Grimm\* and **Friederike Mengel**\*\* (\*University of Cologne, \*\*University of Alicante)

### **“Cooperation in Viscous Populations - Experimental Evidence”**

We experimentally investigate the effect of population viscosity (an increased probability to interact with others of one's type or group) on cooperation in a standard prisoner's dilemma environment. Subjects can repeatedly choose between two groups, that differ in the defector gain in the associated prisoner's dilemma. Choosing into the group with the smaller defector-gain can signal one's willingness to cooperate. The degree of viscosity is varied across treatments. We find that viscosity produces an endogenous sorting of cooperators and defectors and persistently high rates of cooperation. Higher viscosity leads to a sharp increase in overall cooperation rates and in addition positively affects the subjects' intrinsic willingness to cooperate.

**Luigi Bosco** (Università di Siena)

### **“Power, hierarchy and social preferences”**

We ran an experiment in order to evaluate the relationship, if any, between power, or the search for power, and the degree of altruism. In particular we experimentally tested whether an organization structured in a strictly hierarchical way was able to reduce the degree of altruism of a group of experimental subjects. The subjects were divided into groups and played a series of dictator and ultimatum games with the members of other groups; for each experimental euro that they earned, the experimenter assigned half of it to the group. Two different settings were analyzed according to how this group surplus was distributed among group members. In the control setting (treatment A) the group surplus was distributed equally among group members, while in the power setting (treatment B) there was a ranking of the earnings in the group, and the subject who earned the higher sum was given the power to decide the distribution scheme of the group different from her own. It was found that the introduction of a hierarchical structure generated a significant decrease in the rate of altruism, measured in terms of the allocation given to the receiver in the dictator game. In this case the tournament among group members for leadership and the competition for power was a very strong means to induce behaviour more in line with the classical assumption of economics. A remarkable gender effect emerges, suggesting that women seem less attracted and trapped by competition for power.

Nancy Buchan,\* **Gianluca Grimalda,\*\*** Marilyn Brewer,\*\*\* Enrique Fatas<sup>°</sup> and Margaret Foddy Rick Wilson<sup>°°</sup> (\*South Carolina University, \*\*Warwick University, \*\*\*Ohio State University, <sup>°</sup>Valencia University, <sup>°°</sup>Carelton Rice University)

### **"Globalisation and Propensity To Co-Operate: Results From Multi-Country Field Experiments"**

The paper reports on experimental fieldwork conducted in Argentina, Iran, Italy, Russia, South Africa, US. A sample of around 200 subjects, stratified according to age, gender, and socio-economic status, has been surveyed in each country. Participants were asked to interact in three anonymous experimental decisions: (1) a linear Public Goods Game (PGG) at the local level – namely, one involving individuals residents in the same local area; (2) a nested local/national PGG – where a local group constitutes the lower order level PG, and two national groups add to the higher order PG; (3) a nested local/world PGG, where two groups from other countries are included in the higher order PG. Individual characteristics were derived from a questionnaire. Globalisation seems to influence individual behaviour both at the 'macro' and the 'micro' level. Taking the CSGR globalisation index as a measure of the level of globalisation of each country, the index is positively correlated with the countries' mean co-operation rates in each of the three decisions. An individual index of 'individual' globalisation, which measures the extent and the scope of an individual's social, cultural, political, and economic connections with other people on a large scale - is also a strong predictor of overall co-operation rates, and of contributions to the higher order groups - fellow nationals in Decision2 and foreigners in Decision3. This is the case in a model where income, education, gender, and age are basic controls, and the CSGR globalisation index controls for the macro effects. Social identity at the global level seems to mediate the influence of globalisation on individual behaviour. A measure of an individual's global identity is strongly significant, and its introduction has the effect of partially reducing the significance of the coefficient of the individual globalisation index. The same is true for a measure of generalised trust. An index of participation in association - a commonly used proxy for social capital - does not instead have a mediating effect, and it affects cooperation rates at the local level.

Antonio Cabrales,\* Raffaele Miniaci,\*\* Marco Piovesan\*\*\* and **Giovanni Ponti<sup>°</sup>** (\*Universidad Carlos III de Madrid, \*\*Università di Brescia, \*\*\*Università di Padova, <sup>°</sup>Universidad de Alicante and Università di Ferrara)

### **"An Experiment On Markets And Contracts: Social Preferences Under The Veil Of Ignorance"**

This paper reports experimental evidence on a stylized labor market. The experiment is designed as a sequence of three treatments. In the last treatment, TR3, four principals, who face four teams of two agents, compete by offering the agents a contract from a fixed menu. In this menu, each contract is the optimal solution of a (complete information) mechanism design problem where principals face agents' who have social

(i.e. interdependent) distributional preferences. Each agent selects one of the available contracts offered by the principals (i.e. he "chooses to work" for a principal). Production is determined by the outcome of a simple effort game induced by the chosen contract. In the first two treatments, TR1 and TR2, we estimate individual social preference parameters and beliefs in the effort game, respectively. Agents' decisions on the preferred contract are made "under the veil of ignorance", that is, without knowing whether they will be the best-paid agent in the team. Comparing with previous experimental evidence (in which the identity of the best paid agents was common knowledge before agents had to make their contract choice), we find that risk (as opposed to inequality) aversion is the key variable to explain subjects' decisions.

**Anna Conte, Daniela Di Cagno** and Emanuela Sciubba (Luiss University Rome)

### **"Demand for Links and Convergence in Social Networks"**

We run a computerised experiment of network formation, where all connections are beneficial and only direct links are costly. Players simultaneously submit link proposals; a connection is made only when both players involved agree. We use both simulated and experimentally generated data to test the underlying model of network formation both at the micro and the macro level. At the level of the individual, we estimate the individual demand for links. In contrast to the existing literature, we take into account the correlation among the observations belonging to a single individual and we control for such correlation deriving a new estimator mainly inspired by the heterogeneous panel theory. At the macro level, we provide an econometric analysis of network convergence, through a system of time equations. In contrast to the existing literature our method allows identifying the conditions under which convergence to a stable network architecture obtains. To analyse network convergence, we observe the joint time path of two different indicators: *network length* and *connectivity*. The former is constructed to take into account the longest chain obtained in a certain round of the game. The latter reflects the degree of entrenchment of the single nodes in the network in a certain round of the game. We recognise that these two variables are jointly determined at each round and jointly work to make the network reach an equilibrium configuration. We study such a link by means of a system of time equations



Christoph March and **Anthony Ziegelmeyer** (Max Planck Institute of Economics, Jena)

### **“A Bounded Rationality Model of Social Learning”**

Learning by individuals from the behavior of others and imitation pervade the social life. Issues related to social learning have been debated since the beginning of the social sciences and, in the last fifteen years, they have stimulated a revival and very active research in economics. Social learning models consider rational agents with limited information who share that information with others through their actions and they suggest that in many situations decisions tend to converge quickly. They explain many patterns of convergent behavior and fluctuations in the world that do not make immediate sense in terms of traditional economic models, such as fixation on wrong technologies, stock market crashes, sharp shifts in investment and unemployment, and bank runs.

A recurrent issue in the social learning literature is that despite the rationality of individual behavior, and often because of that rationality, the process of social learning may be inefficient or fail completely. These results hint at some social benefits of boundedly rational behavior by individuals. In addition recent experimental studies made clear that the adequacy between subjects' behavior and rational herd behavior is illusory. This experimental literature on cascade games confirms our intuition that the interaction of boundedly rational agents might be beneficial for the aggregation of information.

The aim of this work is to re-examine the framework suggested by Bikhchandani, Hirshleifer and Welch (1992) under the assumption that agents are boundedly rational. Such an alternative theoretical approach enables us to find out which depths of reasoning best capture the decision patterns observed in the experimental studies. More importantly, we are interested in the social benefits which are associated to the different depths of reasoning. As already mentioned, the process of social learning is inefficient because agents are fully rational. Our theoretical approach encompasses Bikhchandani, Hirshleifer and Welch's (1992) approach which enables us to investigate the relationship between the efficiency of the social learning process and the agents' degree of rationality.

**Joël van der Weel** (European University Institute, Florence)

### **“The Signalling Power of Sanctions in Collective Action Problems”**

We present a model of collective action in a heterogeneous population of egoists and conditional cooperators. Each player is uncertain about the cooperative inclinations of the other player. A government or principal who has information about the distribution of types may introduce sanctions for defection. We study the impact of such sanctions through the effect on the beliefs of the players about the distribution of types they are facing. It is shown that in equilibrium sanctions can crowd out trust between agents by sending a signal that there are many egoists around. This can lead the government to set low sanctions to induce trust and “crowd in” cooperation. In cases where conditional cooperation is an important factor in collective action, as is the case in tax compliance, the model provides a rationale for the low observed sanctions in the real world.

**Christophe Deissenberg\*\*** and **Patrizia Sbriglia\*** (\* Université de la Méditerranée, \*\* Università di Napoli 2)

### **“Strategic announcements in a policy game”**

In this paper we report the results from a series of experiments on time inconsistency in a macroeconomic game as in the Kidland-Prescott model. We depict an environment in which  $n$  players – acting as the private sector – independently form an expectation on the inflation rate in period  $t+1$ . Following Deissenberg-Dawid (2005), the Government makes a previous non-binding announcement on the future policy, and, after the announcement is revealed to the public, the players can enter their inflation forecast. Individual choices are therefore grouped in two categories, *Believers* and *Non-Believers*, the proportion of each group in the population being public knowledge. As the theory predicts, we find that 1) when the size of the *Believers* group is greater than the size of the *Non-Believers* group, it is optimal for the Government to cheat on the original announcement and the inflation rate approximates the Ramsey value; 2) both *Believers* and *Non-Believers* payoffs are higher in this specific context, with *Non-Believers* payoffs always exceeding the net benefits of the other group.

We furthermore explore the individual learning process in the experiments, comparing a general adaptive-expectations model (Arifovic-Sargent (2001)) to a reinforcement learning model, and we find that the latter paradigm explains individual choices better than the alternative model in the majority of the experiments.

**Giuseppe Attanasi,\*** Aurora García-Gallego,\*\* Nikolaos Georgantzis,\*\* and Aldo Montesano\*\*\* (\*Toulouse School of Economics, \*\*LEE, Universitat Jaume I, Castellón, \*\*\*Università Bocconi, Milan )

### **“Games with Confirmed Proposals”**

Games with confirmed proposals are interactive strategic situations in which at least one player, in order to give official acceptance of a contract, must confirm his proposal once known the action chosen by her opponent. In this paper we show that, under standard assumptions, in 2x2 games with confirmed proposals, all the subgame perfect equilibria leads to the same contract, that we call confirmed agreement. Hence, the outcome of the bargaining process is unique even though the strategy space of each of the two players and the game itself are infinite. Moreover, we run experiments in the laboratory on a 2x2 static game with confirmed proposals, whose payoffs are derived from the standard prisoner dilemma game. Our experimental data show that almost all the pairs in the lab reach the confirmed agreement, in this case represented by the Pareto-efficient outcome. This is, by definition, the outcome of each subgame perfect Nash equilibrium of the game with confirmed proposals, even though it is not a Nash equilibrium in the standard (static) prisoner dilemma game.

**Joana Pais\*** and **Ágnes Pintér\*\*** (\*Universidade Técnica de Lisboa and UECE, \*\*Universidad Carlos III de Madrid)

**"School Choice and Information. An Experimental Study on Matching Mechanism"**

We present an experimental study where we analyze three well-known matching mechanisms: the Boston, the Gale-Shapley, and the Top Trading Cycles mechanisms, in different informational settings. Our experimental results are consistent with the theory, suggesting that the TTC mechanism outperforms both the Boston and the Gale-Shapley mechanisms in terms of efficiency and it is slightly more successful than the Gale-Shapley mechanism regarding the proportion of truthful preference revelation, whereas manipulation is stronger under the Boston mechanism. In addition, even though agents are much more likely to revert to truth-telling in lack of information about the others' payoffs - ignorance may be beneficial in this context -, the TTC mechanism results less sensitive to the amount of information that participants hold. These results therefore suggest that the use of the TTC mechanism in practice is more desirable than of the others.

**Alessandro Innocenti,\* Maria Grazia Pazienza,\*\*** Alessandra Rufa\* and Jacopo Semmoloni (\*Università di Siena, \*\*Università di Firenze)

**"Informational Cascades and Gaze Cascade Effect. An Eye-tracking Study"**

The theoretical analysis of informational cascades relies on the assumption that decision makers behave rationally in processing all the available information in order to decide if imitate or not previous choices. However, experimental evidence points out how subjects exhibit in the laboratory various cognitive biases in deciding if entering or not a cascade. Anderson-Holt (1997) find that a third of the subjects exhibit a tendency to rely on the simple counting of signals, while Nöth-Weber (2003) argue that subjects' overconfidence consistently explains the observed deviations from Bayes' rule. To detect if biases are motivated by the activity of information collecting we measure subjects' attention by monitoring their eye movements while the alternatives in each sequential choice (public previous choices and private signals) are being considered. Then, the information acquisition patterns of subjects, identified on the basis of their playing behaviour, are compared. Our preliminary results disconfirm the hypothesis proposed by Shimojo et al. (2003) of a gaze "cascade effect," according to which even if gaze is initially distributed evenly between the two stimuli then is gradually shifted toward the information consonant with the alternative they eventually chose. We find some evidence of correlation between the alternative initially looked at by the subjects and their choices. This finding supports the hypothesis that gaze direction plays an active role in information processing and, consequently, influences the process of decision making in a way that is not necessarily consistent with the principles of economic rationality. More generally, we argue that the process of decision making may emerge from gaze biases leading to increased exposure to external stimuli which translates into increased preference.

**Daria Denti** (Università di Modena e Reggio Emilia and European University Institute)

**“Cleaning the World Doing Maths”**

Pollution is introduced in a horizontal innovation framework with privately-performed multi-stage R&D process and research spillovers associated to each R&D component. R&D is performed by firms only and uniquely to get a new variety of good granting positive payoffs. New varieties of goods feed pollution which, in turn, acts as a negative externality on workers. However, within R&D, basic research, along with being the first necessary step for any R&D process, contributes to abate pollution unintentionally through generality and pervasiveness of its spillovers trajectories. A unique growth rate is determined which is not Pareto efficient. We tackle second-best environmental policy by taxing polluters and supporting pollution-abatement. Notably, in this set up, this matches with industrial policy. Support to basic research is second-best optimal as long as R&D performs little basic research. This finding shows that environmental care needs not necessarily to harm growth and that it can be pursued also by helping activities that contribute indirectly to abate pollution.

**Zuzana Darmopilová** and Jiří Špalek (Masaryk University)

**“Interest groups satisfaction as a factor of successful healthcare reform policy (application of the game theory)”**

With respect to an experience from a healthcare reform process in the Czech Republic, the authors assume failing healthcare reforms to be explained by studying the roles and positions of key interest groups (healthcare providers, insurance funds, pharmaceutical industry, etc.) in the healthcare sector. From this point of view, a successful reform policy has to take into consideration not only objective concepts (such as need, access, quality and/or cost-control) but also the level of satisfaction of each key interest group involved in the service delivery. The aim of this paper is (1) to reveal economic interests of the principal Czech healthcare sector actors, (2) to point out the probability of achieving long term equilibrium in the healthcare sector by identifying reform measures that would be supported by each of the studied interest group (or coalition) and (3) to derive the healthcare policy orientation which would/could be acceptable for considered interest groups. The paper therefore analyzes recent healthcare strategy in the Czech Republic. The categories of “economic interest and the intensity of interest” are used to evaluate this reform proposal.

**Martin Duensing** (University of Oldenburg)

**“Child support and custody arrangements in the bargaining family”**

We use a two-period cooperative family bargaining model in which the (potential) parents choose the number of children, labor supply and consumption in the first stage. These choices determine the bargaining positions in the second stage which in turn has repercussions on the bargaining power of the partners. We consider different tax and child support regimes and custody arrangements and analyze their impact on the parents' decisions. We show that (and how) these legal arrangements matter for the bargaining power of the partners and that it does influence the number of children as well as labor supply and consumption in both periods and, hence, the couple's welfare.

**Anna Pellanda** (Università di Padova)

**“The Demand for Contemporary Visual Art by Public Museums between Production and Us”**

This survey deals with production and use of contemporary visual art in the Italian context of public museums. By production is meant the creation of works of art by the artists, by use the observation of paintings and sculptures by the visitors inside museums. As to public museums, it must be remembered that their mission is to show works which enhance the wellbeing of the people present and must be preserved for the benefit of future generations. The principal question which underlies this entire paper is: what needs of their public do public museums use when employing public funds to buy work of contemporary visual art to update their collections? This leads us to the old question of value and its transformation into price. The classical “labour theory of value” is thus taken into consideration and also dismissed because, using a production function with two factors, it is more or less impossible to evaluate the cost of the labour of artists. Also the “marginal” utility theory of value is considered but it cannot be applied in this context as it can explain the private demand for art (through the Giffen paradox) but not the demand of public institutions. Also the concept of “public utility” concept, typical of merit goods, is not useful because the price paid by public museums for works of contemporary art is a market price. The concept of value which seems most fit to be translated into prices paid by the public demand is that of “material document of civilization” embodied in contemporary, as well as antique and modern, paintings and sculptures.

A short review of the avant-garde artists shows that certainly contemporary art is also an expression of the “zeitgeist”, thus public museums must expose and preserve it. But the problem of who decides what is and the price paid for a work of art considered a document of civilization remains unsolved. The choice and price are not settled in accordance to certain parameters used in economic theory which work for antique and modern art and which are used also by auction houses. For contemporary art, which escapes all previous schemes of traditional criticism and filtered taste, the price is fixed by art merchants and gallery proprietors connected by oligopolistic practices. This price is

largely made up of transaction costs, insider trading, asymmetric information and market speculation. Thus contemporary art market is for risk-loving private investors; but public demand cannot be considered in the same way as private investors. A measurable criterion must be found to ascertain the market price paid for art and then to reject or to confirm it. This criterion is sought in the concept of art as knowledge: if the productivity of knowledge can be quantified perhaps it offers an objective parameter to ascertain to the market price paid for contemporary art. Knowledge is able in most recent theories of growth as human capital, through constant qualification, to contrast the law of decreasing returns. But art as knowledge cannot be measured when being produced because the productivity of artists is incalculable (if knowledge increases as study and improvement continue, the works of old artists ought to be more valuable than their works done in their youth and this is not true). Art as knowledge can perhaps be measured when art is used, that is, enjoyed in museums and studied in schools. Measuring art as knowledge means to quantify its contribution to the formation of gross national product through multipliers of economic activity, employment, public and private consumption as was done very recently by the European Commission for the years 1966/67. The novelties and difficulties of this procedure are briefly considered. Art as knowledge can also be measured when it is utilized to form individuals. In this context indicators based upon statistics of spending in R&D are used in order to see the influence of art on qualifications of people working either in industries or in universities. A short summary of this research and various "Manuals" used is included. But even if the contribution of art to increasing national and individual wellbeing could be measured with good approximation, this can not represent an objective value to which the market price paid by public demand for contemporary art can be compared. One way to try to solve this problem is to resort to public needs for contemporary art represented by the demand for it. A statistical enquiry among visitors of some semi-public museums has been used to learn if consumers of contemporary art approve or criticize the spending of public funds on it. It should be noted that public museums usually buy works to update their collections according to their directors' decisions in complete disregard of the consumers' (visitors') tastes. Very interesting results were obtained from a questionnaire focused specifically on the expenses of public museums.

**Marek Pavlik** (Masaryk University)

### **"Voting preferences as a factor affecting health care policy implementation"**

*Objective:* To find out how voters' changes their preferences in health care policy issues during the time and examine if these preferences are different from election results. The result shows how important is this factor for analysis of implementation process of health policy in the Czech Republic.

*Background:* Many of theoretical or practical problems in the Public economics are tight to result of implementation Public policy. Therefore analysis of the implementation process would be one of important instrument for understanding some phenomena in the Public economic. This paper narrows down a research task to the analysis of Public support and Attitudes and resources of constituency group (SABATIER, MANZMANIAN, 1983) as a one of Nonstatutory variables affecting implementation. Findings about stability, predictability and importance of this factor are a part of complex implementation analysis. Usually we could



expect that voting preferences for given issue should follow up an election result, however it is not matter of fact.

*Design and settings:* Author developed an analytical model based on election results and analysis of pre-elect programs (health policy related part) and polls. This case was focused on the parliamentary election in the Czech Republic among 1998-2006. Only successful parliamentary parties and its pre-election programs were analyzed. Each of the pre-election programs was tested to find out the level of support for main characteristic of health care system (e.g. co-payment from patient, competition between insurers ect.). Results of this model are based on the aggregation support for main characteristic of health care system across the spectrum of political parties.

*Results and Conclusions:* Despite of election result (i.e. victory of liberal or social party) voters' preferences are relatively fixed without important changes in the time. This result has a consequence for evaluation importance of this implementation factor. Although voters consider health care policy as an important issue, their voting behaviour depends probably not only on the pre-election program (at least in health care issue). Therefore this implementation factor is not significant if we consider analysis of implementation process of health policy in the Czech Republic

**Jharna Pathak** (Gujarat Institute of Development Research, Ahmedabad)

**"Contribution and performance of water use in Drinking water sector: case studies of municipalities"**

This paper examines contribution and performance of drinking water, which is recognised as a social good, rather than an economic good. Government of India has prioritised the allocation of water to the drinking water sector. The present regulation forces the diversion of water to drinking water sector as per the stipulation of Basic Water Norms. Such an allocation exerts pressure on water use for farm sector, particularly in lean period. In the situation when vast literature talks about the need to bring about an efficient water use in agricultural sector, this paper with the help of case studies of municipalities (local body) has attempted to study contribution and performance of water in drinking water sector. Overall, results of this analysis show that in order to achieve the norms of supplying basic water rate, supply-augmentation schemes are adopted. Consequently, water supply has improved over time but such an improvement is viewed in the perspective of under-utilised capacities of newly constructed water networks. This raises concerns about the sustainability of this institution. In this situation, water providers have little desire of transition to reforms based approach leading to efficient water use for meeting future needs. Moreover, municipalities suffer from problems of low water charges and poor cost recovery. This has adverse effect on maintenance of existing infrastructure, thus wasting water. The proper analysis of pricing requires well-maintained records on quantity of water supplied for residential use and commercial use and the revenue earned from various users within the municipality. Such records are currently non-existent. In absence of much information, municipality is in no position to devise strategies to distribute water between uses or revise water rates. The findings of the study highlights the need to involve all stakeholders in order to improve the performance of water use. Efficient and effective uses of water requires the formulation and implementation of

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programmes for cost recovery, institutional reforms, laws and legislations and user participation. This requires a major shift from the classical paradigm used in water resource planning and management to an innovative paradigm. Such a step is necessary to bridge not only the financial gap but also the performance gap afflicting water supply in the municipality.



Fabrizio Botti, **Anna Conte**, **Daniela Di Cagno** and Carlo D'Ippoliti (Università Luiss, Roma)

**"Laboratory versus Natural and Framed Field Experiments: Searching for the Counterfactual"**

It is generally accepted that in spite of the methodology developed for years by economists, the goal of any evaluation method is to construct the proper counterfactual. This capability highly differs when we consider methods that generate data and techniques to model data. Lab experimentation represents so far the most convincing method of creating the counterfactual, since it directly constructs a control group via randomization that can be employed as an instrumental variable allowing the analysts to make strong casual statement within the domain of study (List, 2006).

Natural field experiments represent an approach that combines the most attractive evidence of both lab and naturally-occurring data: randomization and realism. Recently List (2006) argued that field experiments serve as a "useful bridge between data generated in the lab and empirical studies using naturally occurring data". Such studies are able to overcome both the Harrison and List (2004) and Rabin (2000) critiques to experimental methods in economics, concerning the inferential validity of estimates based on non-representative sample (e.g. students) and limited incentives provided by small stakes. Hong and Plott (1982) explore the behaviour of non-student subjects in an auction market founding a loss of efficiency respect to traditional laboratory subjects.

In this paper we compare results stemming from a "natural field experiment", a "framed field experiment" and a traditional laboratory experiment. (Harrison and List, 2004). This allow us to test both the viability of theories in an environment in which they intend to explain and the robustness of laboratory results. We use data from a famous Italian TV show called "Affari Tuoi" as a natural experiment in order to investigate ordinary people risk attitudes in real decision problems with real world stakes (Botti et al. 2005, 2007). We run a lab experiment following the same rule of the game using a sample of students of Università LUISS Guido Carli of Rome and traditional experiments' incentives. To control for framing effect we run also a series of lab sessions in the same TV show studios with students and lab incentives. As List (2006) argues the representativeness of the environment more that sample population representativeness has to be carefully evaluated when experimental data are analysed. The comparison between the three experimental settings allows evaluating the generalizability of lab results.

Luciano Fanti and **Luca Gori** (Università di Pisa)

**"Long Run Output, Welfare and Fertility in a Neoclassical OLG Growth Model with Regulated Wage and Involuntary Unemployment"**

We analyse the effects of the regulation of wages in a standard neoclassical OLG growth model extended to account for endogenous fertility. In contrast with the prevailing literature, which has failed to pay due attention to inter-temporal contexts, our conclusion is that under suitable conditions – that is, sufficiently high capital's weight in technology

and unemployment benefits – a regulated wage economy may perform better than a market-wage economy as regards both the long-run economic growth and the lifetime welfare of the representative generation. As a consequence, the correlation between unemployment and economic growth may be positive. Further, the regulated wage may also be treated as a policy parameter for the control of population growth.

**Andrea Gallice** (European University Institute, Florence)

**“Some Social Welfare Implications of Behavioral Preferences”**

We reconsider the standard welfare problem of allocating a scarce resource among a number of claimants in light of some recent behavioral contributions. In particular we study the alternative scenarios of the claimants being characterized by inequity averse preferences, reference dependent preferences and self serving biases. For each case we compute the social planner’s optimal allocations identified by the utilitarian, the maxmin and the fair criteria. Results are often at odds with respect to the traditional “neoclassical preferences” case. We discuss the policy implications.

**Jaromir Kovarik** (Universidad de Alicante and LaTeX)

**“Belief Formation and Evolution in Public Good Games”**

We analyze first-order beliefs in a variation of the Public Good Game. We show that (1) the role that belief elicitation plays in the experiment affects both the contribution behavior and beliefs, and (2) framing influences stated beliefs, as much as contribution behavior. In the second part of the paper, we study the role of heterogeneity in the formation of initial beliefs, and provide an empirical model of the belief up-dating process. Subjects use the past experience, stressing the role of experience that comes from situations similar to the current ones.

**Gianna Lotito** (Università del Piemonte Orientale)

**“Resolute Choice in interaction: A qualitative experiment”**

The purpose of this paper is that of extending the model of Resolute Choice (McClennen 1990) to a situation of interaction and comparing its performance with the Sophisticated-subgame perfect equilibrium model in an experiment. A non-cooperative game in which two players with different preference orderings over outcomes move sequentially is adopted as a framework to compare the two models. I consider those combinations of the players’ preference structures which generate the different plans and find those game situations where either one or two outcomes Pareto-dominant over Sophisticated Choice exist. Two definitions of Resolute Choice are therefore tested, which allow to discriminate

choice between two different Pareto dominant outcomes. In the experiment three games with the same structure but different payoffs are played. The design allows preliminary group discussion among the players about the decisions to be taken, which is taped and transcribed. The results show support for Resolute Choice as Pareto dominance, while the ability of Resolute Choice as Nash bargaining to explain behaviour is quite limited. The subjects' motivations are very useful in interpreting the results. They show that choice for a Pareto dominant outcome is mainly driven by the idea of Pareto optimality itself. Motivations differ slightly according to which strategy is chosen to reach one of the Pareto dominant outcomes. A result to be noted is the relevance of the different payoffs of the games in motivating choice. The method used in the experiment to elicit the subjects' responses is the strategy method. A direct consequence is that the results are all in terms of strategies chosen by subjects. In view of this, an alternative way to look at the experiment results has been tried, which consists in a simulation of the outcomes of the games that would have resulted from direct interaction among the players. The results have then been compared to the ones from the experiment.

**Luigi Luini\*** and Pier Luigi Sabbatini\*\* (\*Università di Siena, \*\*Italian Antitrust Authority)

**"Demand cross elasticity without substitutability. Evidence from a field experiment"**

We study a market where goods are produced under low marginal costs with a poor degree of substitutability among products. In such an environment we run a field experiment in order to explain why prices are interdependent even when preferences are independent. We compare our results to previous theoretical and laboratory experimental literature on price fairness. We find that - even in absence of interaction among subjects, price fairness/unfairness do play a major role in accepting/rejecting a deal. Subjects tend to resist more a price increase when the preferred good is not anchored to the general price increase of a given consumption bundle.

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