Introduction to Social Preferences:
Distributional Preferences

May 5, 2009
Q: Who wrote:

*It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their own interest. We address ourselves not to their humanity, but to their self-love, and never talk to them of our necessities, but of their advantage.*

Adam Smith in *The Wealth of Nations*

That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instance to prove it.

Adam Smith in *The Theory of Moral Sentiments*
Q: Who wrote:

*It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their own interest. We address ourselves not to their humanity, but to their self-love, and never talk to them of our necessities, but of their advantage.*

Adam Smith in *The Wealth of Nations*
Q: Who wrote:

*It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their own interest. We address ourselves not to their humanity, but to their self-love, and never talk to them of our necessities, but of their advantage.*

Adam Smith in *The Wealth of Nations*

*How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it... That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instance to prove it.*
Q: Who wrote:

*It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their own interest. We address ourselves not to their humanity, but to their self-love, and never talk to them of our necessities, but of their advantage.*

Adam Smith in *The Wealth of Nations*

*How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it... That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instance to prove it.*

Adam Smith in *The Theory of Moral Sentiments*
Schedule

- Distributional Preferences [1-2]
  - Evidence
  - Models
- Reciprocity [1]
- Beliefs-based Preferences & Psychological Games [2-3]
Summary of Approach

- Self-interest is the main human motive in many (most?) economic contexts

- However
  - in some (important) situations self-interest is not the main motive
  - even a small departure from pure self-interest can dramatically influence economic outcomes
Self-interest is the main human motive in many (most?) economic contexts

However

- in some (important) situations self-interest is not the main motive

Evidence to follow

- even a small departure from pure self-interest can dramatically influence economic outcomes
Summary of Approach

- Self-interest is the main human motive in many (most?) economic contexts

- However
  - in some (important) situations self-interest is not the main motive
  - Evidence to follow
  - even a small departure from pure self-interest can dramatically influence economic outcomes
  - E.g. if cost of helping others is small
Self-interest is the main human motive in many (most?) economic contexts.

However

- in some (important) situations self-interest is not the main motive
- *Evidence to follow*

- even a small departure from pure self-interest can dramatically influence economic outcomes
- *E.g. if cost of helping others is small*

So we need to move away from exclusive focus on self-interest.
Intro to Social-Preferences

The Right Sensibility

Centrality of self-interest, but relevance of social-preferences.

In the rural areas around Ithaca it is common for farmers to put some fresh produce on the table by the road. There is a cash box on the table, and customers are expected to put money in the box in return for the vegetables they take. The box has just a small slit, so money can only be put in, not taken out. Also, the box is attached to the table, so no one can (easily) make off with the money. We think that the farmers have just about the right model of human nature. They feel that enough people will volunteer to pay for the fresh corn to make it worthwhile to put it out there. The farmers also know that if it were easy enough to take the money, someone would do so.

–Dawes and Thaler (1988)
Classic Experimental Games

- Ultimatum game
- Dictator game
- Trust game
- Gift exchange/labor market game
The ultimatum game: one player proposes a split of the budget, second player accepts or rejects

- SPNE assuming selfishness: Give as little as possible, accept any offer $x > 0$
- SPNE prediction not supported in the data
- Camerer (2003) summarizes 16 early papers w/ different stakes, countries, etc.
- Mode offer: 40 - 50% of budget; mean offer 30 - 40%
- Offers below 20% rejected about half the time
How robust are the results across populations, cultures?

<table>
<thead>
<tr>
<th>Group</th>
<th>Mean</th>
<th>Mode (% sample)</th>
<th>Rejections</th>
<th>Low rejections (&lt;20%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lamalera</td>
<td>0.57</td>
<td>0.50 (63%)</td>
<td>4/20*</td>
<td>3/8*</td>
</tr>
<tr>
<td>Ach</td>
<td>0.48</td>
<td>0.40 (22%)</td>
<td>0/51</td>
<td>0/2</td>
</tr>
<tr>
<td>Au</td>
<td>0.43</td>
<td>0.3 (33%)</td>
<td>8/30</td>
<td>1/1</td>
</tr>
<tr>
<td>Gnau</td>
<td>0.38</td>
<td>0.4 (32%)</td>
<td>10/25</td>
<td>3/6</td>
</tr>
<tr>
<td>Tsimane</td>
<td>0.37</td>
<td>0.5/0.3 (44%**)</td>
<td>0/70</td>
<td>0/5</td>
</tr>
<tr>
<td>Kazakh</td>
<td>0.36</td>
<td>0.38 (50%)</td>
<td>0/10</td>
<td>0/1</td>
</tr>
<tr>
<td>Hadza</td>
<td>0.33</td>
<td>0.20/0.50 (47%**)</td>
<td>13/55</td>
<td>9/21</td>
</tr>
<tr>
<td>Quichua</td>
<td>0.25</td>
<td>0.25 (47%)</td>
<td>0/146</td>
<td>0/3</td>
</tr>
<tr>
<td>Machiguenga</td>
<td>0.26</td>
<td>0.15/0.25 (72%**)</td>
<td>1/21</td>
<td>1/10</td>
</tr>
</tbody>
</table>

*: Because no one made low offers, researchers had to create “sham” offers to study rejection rates.
**: The percentage is the total for the two modes.

People in other industrialized countries act like college students, but people in hunter-gatherer societies do not
Dictator Game

Is UG first-mover behavior self-interested?

- Dictator game: first-mover divides budget

- Camerer (2003): mean offers from 10 - 50%

- Myriad treatment, context variables affect offer levels, but behavior does not converge to pure self-interest
Trust Game

- First-mover “sends” $x \leq B$, second-mover receives $\lambda x$, sends back $y \in [0, \lambda x]$ to first-mover

- SPNE prediction for selfish players is unique: $(x, y) = (0, 0)$

- Most first-movers send $x > 0$

- However, trust does not pay off
Gift Exchange/Labor Market Game

- UG, DG, TG demonstrate existence, strength of social-preferences
- Also motivate theories of how people might care about others
- But don’t say much about economic importance of social preferences
- Fehr, Kirchsteiger, Riedl (1993): experimental labor market
Gift Exchange/Labor Market Game
Economic Importance of Fairness

Read KKT: Fairness as a Constraint on Profit Seeking