Chair of Political Economy
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Social Preferences in Behavioral Economics

I. TOPIC DESCRIPTION

"Do unto others as you would have them do unto you."
(The Golden Rule)

Since years the discipline of Economics and especially the assumption of a self-interested *homo economicus* has been criticized for being an unrealistic and too negative description for economics agents. Still the idea of selfish utility maximizing individuals frequently is used as a starting point in many microeconomic/game-theoretic models and their applications.

However, in many cases observed behaviour is not in line with the resulting predictions: Several individuals show altruistic and cooperative behaviour. In addition, they trust others and reciprocate other's actions. Sometimes, there is even a "dark side" of human behaviour: Individuals engage in harmful activities without any material benefit for themselves. This empirical evidence suggests that individuals do not only care about their own outcomes, but also about those of others and the way of interaction.[1] In the economic literature this is commonly referred to as "social preferences".

Based on the idea that the utility of decision-makers does not solely depend on their own material payoffs, several prominent theories and models of social preferences have emerged. As a starting point, they often use an *outcome-based* approach. In doing so, they assign a certain utility weight to the payoff of other persons. This can explain a variety of preferences, such as prosocial, antisocial and inequality-averse preferences. The most influential examples are the models of Fehr & Schmidt (1999) and Bolton & Ockenfels (2000). To account for reciprocal choices, further aspects like fairness of actions, other's intentions and the way of interaction are incorporated. Prominent representatives are Rabin (1993), Charness & Rabin (2002) and Falk & Fischbacher (2006). Many more factors play a role in how people evaluate the payoffs of others. Examples are efficiency concerns (Engelmann & Strobel, 2004), procedural fairness (Bolton et al., 2005) and the moral wiggle room (Dana et al., 2007). This list could be extended by many further variables.

To examine the impact of these influential factors, researchers often rely on insights from lab and field experiments.[2] Experiments allow for a controlled environment, where the researcher can manipulate the variables of interest and observe how this affects behaviour. In the introductory meeting, we will shortly discuss some selected prominent

[1] Alternatively, one could argue that people violate the assumption of rationality (=do not maximize their utility). However, as many of these decision-making situations are relatively simple, it seems unlikely that a lack of understanding is the driving force behind behavior.

[2] There is an ongoing debate how well suited both instruments are for measuring social preferences and behavior, see Levitt & List (2007) for a more critical perspective and Charness & Fehr (2015) for a more optimistic view.

studies to give you an inspiration for your own research ideas. These include strategic situations that are frequently implemented to gain information about individuals' social preferences, as for example the Ultimatum Game, the Trust Game, the Public Goods Game and the Prisoner's Dilemma or simple distributional tasks.

Topic suggestions include:

- The impact of socio-demographic variables on social preferences (cultural differences, age and gender differences etc.)
- Social preferences in the field (donations, ethical consumption, volunteering)
- The underlying motivations of being prosocial (intrinsic preferences vs. image concerns/reputational effects)
- Social preferences in time of COVID-19 (How does the crises affect those?)
- The emergence of prosocial norms
- Circumstances under which harmful behaviour appears
- The role of group-identity (who are the persons we care about with our actions?)
- (…)

II. ORGANIZATIONAL AND PROCEDURAL DETAILS

In the seminar no topics will be handed out. Instead, students will use their own creative abilities to think of an interesting research question in the broad thematic field of social preferences. Based on this, you will design an experimental design for a lab or a field study, which is suited to test your hypothesis/answer your research question. (*Note:* Carrying out the experiment itself is not part of the seminar.)

Students will work in groups of up to four, depending on the total number of participants. If the process of group formation is unsuccessful, participants will be assigned.

The seminar starts with an introductory online meeting on Wednesday, April 14th at 15:00 (3 pm) in zoom. The meeting is supposed to last for approx. 1-1,5h. The link will be sent to the final list of participants at a later point in time.

Ideas for experiments or field studies will be presented in blocked events at mid-end of May or beginning of June. Each presentation should last for max. 20 minutes. Full attendance in all meetings is required for successful participation in the seminar. Seminar papers of 8 – 10 pages, as well as an individual abstract with 75 to 100 words are to be handed in by the end of the semester.

Please note that we will ask you for a brief motivation and - if possible - a short description of the topic you are interested in, in order to ensure a well-balanced variety in the seminar. Prior attendance of the courses "Behavioral Economics" and/or "Auction and Mechanism Design" is recommended but not required. For further questions, please contact Hannes Rau (hannes.rau@kit.edu).

III. SOURCES OF INSPIRATION

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