

# Norms of Fairness and Reciprocity [Lab]

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## 1 Ultimatum Game

Imagine there are two players. One player is a proposer and the other is a responder. The proposer decides how to split a pile of money and the responder can choose to either accept or reject. If the responder rejects, none would get any money. But if the responder accepts, they would get the money. Traditionally, the responder should accept any amount of money and would be indifferent to getting zero. However, experimental evidence suggests the acceptance threshold is roughly 30%.

### 1.1 Dictator Game

This is considered a modified version of the ultimatum game. The proposers can make whatever offer they want and the other party can not reject. In this game, the offers *tend to be lower* than the original ultimatum game, but still above what actual theory dictates. There are possible causes to this:

- Perceptions of selfishness (can be prevented by anonymity; single-blind and double-blind)
- Fairness/Altruism

Experimental evidence suggested that in anonymized situations, people left less money to the recipients. This suggests that social context is often important for dictating behavior, and that people have unconscious, preprogrammed rules of social exchange.

## 2 Public Goods Game

Place 4 anonymous participants together with 20 tokens each. Each earn 0.4 tokens for each token someone puts into a common pool, but the giver is must place a full token down. Note the following payoffs:

- If everyone kept tokens, they get a payoff of 20
- If everyone puts in their tokens, they get 32 each
- If you didn't put any in and everyone puts theirs in, you get 44 but cooperators only get 44

Note that this games seems like a modified version of prisoner's dilemma, where it is strictly dominant to just keep all the tokens. However, this is not the optimal solution if everyone does that.

## 2.1 Punishment

Assume that after the game is played, the contributions are revealed. Players can impose a punishment penalty of 3 tokens at the cost of 1 token. It's important to note that you don't get any benefit from the punishment and it's a waste of the tokens.