Some facts about social preferences, or why we're sometimes nice and sometimes not

Karthik Panchanathan 
buddha@ucla.edu

Homo economicus is dead!

- It was a “mistake” to believe that individuals and institutions would pursue their self-interest and act in a “rational” manner.
- “… a flaw in the model … that defines how the world works.”

How the mind works

- People aren’t purely “rational”
- We don’t always objectively analyze the data and make optimal decisions
- We sometimes pursue short-term rewards
- Social influences shape decision making
- People aren’t purely “self-regarding”
- We don’t always maximize our own utility
- We have “other-regarding” preferences, too, which can be “pro-social” or “anti-social”

How do we know how the mind works?

- Behavioral game theory is one set of tools with which we can model human behavior
  “Self-regarding” model 
  \[ U(x) = x \]
- Design experiments to precisely reveal specific aspects of behavior
  “Other-regarding” model 
  \[ U(x) = x + a(x-y) + b(y-x) \]
- The results of these various experiments can be integrated to yield an empirically-grounded model of human decision-making
Let’s play a game

- Suppose I give one person (the proposer) $10 and ask her how she would like to allocate this money between herself and another person, in another room, whom she will never meet.
- The other person (the responder) can accept the proposed division, and both go home with some money; or, he can reject the division, and both go home with nothing.
- If you were the proposer, what would you offer?
- If you were the responder, what is the minimum acceptable offer?

Behavioral Economics

- Participants make real choices involving substantial sums of money
- Participants can benefit others at a person cost
- Experiments are one-shot and anonymous, so reciprocity or reputation cannot motivate behavior
- The experiment you participated in is the Ultimatum Game, which models the last stage of a negotiation—“take it or leave it!”

Ultimatum Game

- If people were purely self-regarding:
  - Responders should accept any non-zero offer
  - Anticipating this, proposers should offer $1
- People aren’t purely self-regarding:
  - 100s studies in US, Europe, and Asia
  - Most proposers offer half of the money
  - Offers less than 20% are usually rejected
  - Offers are “rational” given pattern of rejections
  - Low computer-driven offers are accepted
  - In a “market” version, people are “self-regarding”

Cross Cultural Convergence
**Machiguenga**
- Tend to make lower offers
- Tend to accept lower offers
- Social interactions mainly within nuclear families
- Economics students often behave the same way!

**Au and Gnau**
- Large offers are often rejected!
- Extreme generosity used to shame people
- Has someone ever tried to shame you with a gift?
- Did you accept the gift?

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**Third Party Punishment Game**
- Measures the willingness of third-parties to pay to enforce the fairness norm
- **Allocator** decides how much of his $10 endowment he wants to transfer to the **recipient**
- The **recipient** must accept whatever is offered; there is no possibility to reject
- After the allocation, an **observer** can subtract $3 from the **allocator** at a personal cost of $1
- Self-regarding **observers** should not pay to punish unfair allocations

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**People do pay to punish**

![Graph showing the willingness of observers to punish unfair allocations.](Fehr and Fischbacher, 2004)
The Bystander Effect
Kitty Genovese (03/13/64)

For more than half an hour thirty-eight respectable, law-abiding citizens in Queens watched a killer stalk and stab a woman in three separate attacks in Kew Gardens. Twice, the sound of their voices and the sudden glow of their bedroom lights interrupted him and frightened him off. Each time he returned, sought her out and stabbed her again. Not one person telephoned the police during the assault; one witness called after the woman was dead. (NY Times)

The Bystander Effect
Latané and Nida, 1981

- A recipient is less likely to receive help, as the number of onlookers increases.
- The presence of others inhibits an individual from engaging in pro-social behavior.
- The effect has been replicated scores of times using many different dependent measures.
- **Diffusion of responsibility:** The presence of others offloads some of the responsibility onto them. (Not a division of responsibility)

Study 1: Laboratory

- **Dictator Game:** The dictator is given a sum of money and can transfer any amount to a recipient, who starts with nothing.
- **Conditions:** 1 Recipient may receive money from 1, 2, or 3 Dictators. Transfers are simultaneous, one-shot, and anonymous.
Study 1

- The endowments varied across conditions, keeping the average welfare per group constant at $12.
- If the Bystander Effect holds, recipients should earn less money as the number of dictators increases.

1 Dictator: $24
2 Dictators: $18 $18
3 Dictators: $16 $16 $16

Recipient Payoffs

1 dictator = $6.68
2 dictator = $4.18
3 dictator = $4.22

Dictator Transfers

1d: $6.68/$12 = 0.56
2d: $2.09/$6 = 0.35
3d: $1.41/$4 = 0.35

Study 2: Online
Study 2

- Replication of Study 1 with an online subject population.
- Conditions: Subjects were assigned the role of Dictator. They were either alone, with one other Dictator, or two other Dictators. (There were no Recipients.)
- No compensation, hypothetical offers.

![Graphs showing dictator transfers among 1, 2, and 3 Dictators]

Dictator Transfers

1 dictator: $9.08/$12 = 0.76
2 dictators: $6.59/$6 = 1.10
3 dictators: $4.34/$4 = 1.09

A hypothetical infusion of responsibility?

![Graphs comparing laboratory and online transfers]

Summary of Results

- With real stakes, there is a strong diffusion of responsibility—recipients go home with substantially less money when there are 2 or 3 dictators as opposed to when there is 1.
- There is no diffusion of responsibility in an online study with hypothetical stakes. If anything, there is an infusion of responsibility when talk is cheap.
Concluding Remarks

- Human behavior cannot be adequately captured with a simple *Homo economicus* model with a few principles like “rationality” and a “self-regarding” preference
- In at least some contexts, we exhibit “other-regarding” preferences—sometimes “pro-social” and sometimes “anti-social”
- The task is to empirically build up a better model of behavior

People who know more than me

- Matt Ridley
  “The Origins of Virtue”
- Richard Thaler
  “Nudge”
- Cass Sunstein
  “Nudge”
- Colin Camerer
  “Behavioral Game Theory”