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## AWI This Week

### **Monday, 20.10.08**

### **Departmental Seminar**

17.15-18.45  
AWI 1017

Arno Riedl, University of Maastricht  
“The effect of partner choice in coordination problems”

### **Wednesday, 22.10.08**

### **Internal Seminar**

17.15-18.45  
AWI 1017

Wendelin Schnedler  
“Re-Organization”

### Departmental Seminar

In laboratory experiments subjects often fail to coordinate on the surplus maximizing equilibrium in a variety of environments. Yet, outside the lab people seem to agree on rather efficient arrangements. This discrepancy is the starting point for a research project investigating the effect of partner choice in coordination problems. The possibility to choose interaction partners is a natural feature of almost any interaction between human beings. Surprisingly enough, it is neglected in the experimental literature. The theoretical economic literature only recently took up this point. In this project we experimentally investigate the effect of partner choice in two prominent coordination problems. The Stag-Hunt game and the Weakest-Link game. For the former our experiment is based on the recent theoretical contributions of Goyal and Vega-Redondo (2005) and Jackson and Watts (2002). In the experiment each member of a group of six subjects plays stag-hunt games with all interaction partners. In contrast, to other coordination game experiments participant's in our experiment choose both an action in the coordination game and linking decisions regarding the interaction partners. In a control treatment each participant has to play the coordination game with all five other group members, as in usual coordination game experiments. The experimental treatments vary in the required consent and in the costs of linking. Specifically, we investigated (i) two-sided costless link formation, (ii) one-sided costless link formation, and (iii) one-sided costly link formation. The experimental data clearly show that the endogenous choice of interaction partners is a powerful force to achieve coordination on the payoff dominant equilibrium. The frequency of play of payoffdominant equilibria is significantly higher in all three experimental treatments than in the control treatment. Moreover, in the treatments with endogenous linking the frequency of play of the payoffdominant equilibrium is increasing over rounds whereas it decreases in the control treatment. However, in the treatment with one-sided costly link formation the additional coordination problem in link formation leads to a low and decreasing interaction density implying efficiency losses not predicted by the theoretical models. In the weakest-link (or minimum effort) game each subject chooses an effort level and obtains a payoff which is determined by the lowest effort in the group. The game has multiple Pareto-ranked equilibria. In the experimental treatment, E, subjects play the minimum effort game only within their self-chosen neighborhood, which is determined by two sided costless linking. In the control treatment C the game has to be played with all eight group members. The results show that the choice of interaction partners leads to unanimous coordination on the payoff dominant equilibrium, that is all subject coordinate on the maximum effort. In treatment E effort levels increase over time, whereas they decrease in C. We test the robustness of the result by conducting treatment E with groups of 24 participants.

(with Ingrid Rohde and Martin Strobel)

invited by Jörg Oechssler

## **Talks and Research Visits**

Malte Faber will travel for his 4th mission to China from October 17-31, 2008. He will give workshops for governmental officials on questions of political economy and environmental as well as resource matters. In addition, he will give lectures on these topics at the Tsinghua University in Beijing and the University in Xi'an. His advisory work is organised and financed by the Gesellschaft für Technische Zusammenarbeit (GTZ) which is closely connected to the German Entwicklungsministerium.

Christian Conrad presented his paper "Negative Volatility Spillovers in the Unrestricted ECCC-GARCH Model" at the European Meeting of the Econometric Society, August 27-31, 2008, Milan, at the Financial Econometrics & Vast Data Conference, September 15-16, 2008, Oxford-Man Institute and at the Jahrestagung Verein für Socialpolitik, September 23-26, 2008, Graz.

On October 16-17, 2008 Andreas Roider is visiting the University of St. Gallen (Uwe Sunde).

## **Visitors**

Arno Riedl from University of Maastricht is staying at the AWI for research with Jörg Oechssler from October 20-22, 2008.

Simon Grant from Rice University, Houston, Texas, is staying at the AWI for research with Jürgen Eichberger from September 21 to October 19, 2008 (room 4144).

## **New Working Papers**

Thomas A. Eife: "Do Menu Costs Make Prices Sticky?" Discussion Paper No. 277.

## **New and Leaving Staff**

Switgard Feuerstein joined the AWI as senior lecturer in International Economics in October 2008.

Mehmet Ceylan joined the AWI as a new staff member of the EDV-Team in October 2008.

Arif Rüzgar joined the team at the Chair of Economic Policy as a teaching assistant in October 2008.

**Editorial deadline for issue 4/2008 of the newsletter:  
Wednesday, October 22, 2008, 12 o'clock  
sekretariat.vertragstheorie@uni-heidelberg.de**

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