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AWI This Week

Monday, 18. 10. 10 Departmental Seminar

17.15-18.45 Jacob Goeree, University of Zurich
AWI 00.010 "Inefficient Markets"

Wednesday, 20.10.10 Internal Seminar

17.15-18.45 Alexander Koch and Julia Nafziger, University of Aarhus
AWI 00.010 "Self-regulation, Goal Setting, and Mental Accounting"

Departmental Seminar

Jacob K. Goeree

"Inefficient Markets"

Numerous experiments have demonstrated that with private values, the continuous double auction converges quickly and reliably to competitive equilibrium, resulting in full allocative efficiency. Furthermore, with common values, previous experiments have shown that the continuous double auction is informationally efficient, i.e. trade prices accurately summarize traders' dispersed private information. This paper considers an environment where traders' values and information consist of both private and common-value elements. Under the rational expectations hypothesis, the introduction of common values has no adverse consequences for allocative and informational efficiency. In contrast, a Bayes-Nash model in which traders' optimal behavior reflects only a combination of their private and common-value information predicts that neither allocative nor informational efficiency is possible. In a series of experiments, we test these competing hypothesis and find that observed behavior is much better predicted by the Bayes-Nash model. The double auction is highly inefficient – only 50% of the gains from trade materialize – and prices differ significantly and substantially from their rational expectation levels. We also investigate whether free-form communication enhances the performance of the continuous double auction. We find that cheap-talk communication has a positive effect in bilateral settings, but it has no effect or even a negative effect in larger, more competitive markets. The chat data can be classified according to a small number of communication protocols, which either reflect endogenously emerging institutions (negotiations, auctions, or posted prices), disclosure of private information, or inconsequential messages unrelated to trading (babbling). Truthful disclosure is stable in bilateral settings but breaks down in large groups with adverse effects for efficiency. Our findings contrast with those of previous double auction experiments along a number of dimensions: (i) with private and common values, the informational and allocative efficiency of the double auction is low, (ii) more competition is beneficial only with private values, has no effect with private and common values, and *lowers* efficiency when communication is possible, and (iii) communication is beneficial only in bilateral settings but has no, or even a negative, effect in larger groups. "

Internal Seminar

Alexander Koch and Julia Nafziger

"Self-regulation, Goal Setting, and Mental Accounting"

Goals are an important motivator. But little is known about why and how people set them. In a first step, we build a simple model of goal setting. We model goals as rational, self-fulfilling expectations that induce reference points for task performance. Because substandard performance is psychologically painful, goals can help a person with a present bias to engage in self-regulation. In a second step, we then ask how people evaluate their goals if they face many tasks. According to the so-called motivational bracketing hypothesis, people attempt to overcome self-control problems by evaluating their goals in separate ("narrow") mental accounts rather than in a joint

("broad") mental account. Our model allows us to study this hypothesis and derive predictions under what circumstances a narrow mental account indeed is optimal. The key idea is that a broad mental account allows the individual to substitute effort between tasks and thereby dampens incentives. We show that this effort substitution effect arises whenever the individual has a relative bias between tasks, or if there is a stochastic relationship between effort and task performance. In the former case, a broad mental account allows the individual to shift his effort away from an "unpleasant" task. In the latter case, a broad mental account allows high performance in one task to compensate for low performance in the other. While a broad mental account thus provides partial insurance against the risk of falling short of ones' goal(s), it creates incentives to shirk in one of the tasks. We discuss applications of our model and robustness of our results to goal revision.

Jour Fixe

The AWI JOUR FIXE takes place at the Lounge on a weekly basis on Mondays from 16:30 till 17:15 (i.e., just before the departmental seminar). There you will have the opportunity to meet the speaker, enjoy a coffee, and exchange news and discuss research with other members of the AWI. "

Talks and Research Visits

Johanna Kühnel presented her paper "Population Aging, Government Spending, and Endogenous Economic Growth in Politico-Economic Equilibrium" at the Doctoral Seminar in Economics of the University of Zurich, October 13.

Julia Müller presented her paper "There's more to it than meets the eye - An eye-tracking experiment on the beauty contest game" (joint with Christiane Schwieren) at the 2010 Congress of the Gesellschaft für Experimentelle Wirtschaftsforschung (GfeW) in Luxembourg, October 1-2.

Jörg Oechssler presented his paper "Unbeatable Imitation" (with Peter Duersch and Burkhard C. Schipper) on September 30, at the Microeconomics Seminar of ETH/UZH.

New Publications

Stefan Bauernschuster, Peter Duersch, Jörg Oechssler and Radovan Vadovic: *Mandatory Sick Pay Provision: A Labor Market Experiment*, forthcoming in Journal of Public Economics, 2010.

Editorial deadline for issue 22/2010 of the newsletter:
Wednesday, October 20, 2010, 12 o'clock
newsletter@awi.uni-heidelberg.de

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