

Experimental Economics

Course Brief Description

Number of credits: **4 ECTS**

Course period: 1 semester / 2 classes per week

Language of Instruction: English

Instructor: Natalya Shestakova, PhD, Dmitry Gladyrev, PhD-student

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Course description:

The efficiency of markets is a topic of both popular and academic discussion. The longstanding debate is to what extent market prices reflect underlying preferences of society. This is important because prices serve as economic indicators of the relative, or fundamental, values of a set of assets. When markets operate efficiently, they help channel investment and resources into assets which society values the most. On the other hand, when they fail, prices can cause misallocations of resources that lead to unnecessary waste and loss.

Major part of the course is devoted to experimental asset markets. Experimental asset markets, are widely used to study market efficiency, or the degree to which market prices reflect available information on assets' fundamental values. In a typical experimental market, a group of student subjects are endowed with cash and finitely lived assets, which pay random dividends. Subjects trade among each other using a computerized interface, and market prices develop endogenously. The most cited advantage of such markets over field ones in addressing the question of market efficiency is the opportunity for researchers to control the assets' fundamental values through the distribution and the frequency of dividends and to provide this information to subjects.

Lectures and reading materials. Participating in the lectures and reading the assigned papers is the most essential part of the course. All enrolled students are therefore expected to participate in all lectures and read all assigned papers.

Seminars. The course requires active student participation. Students are expected to read the assigned textbook chapters, cases and articles before every class. There will be a midterm exam, a final exam, case studies and a team project.

Assignments. The course “Experimental Economics” provides students with hands-on experience in designing and implementing economic experiments. Eight classes are devoted to laboratory work. Laboratory work assumes participation in experiments, programming experiments in zTree, and analyzing data in Stata. Some of the experiments are simple enough and can be organized by students themselves. To assist them, specific instructions are given in the section “Paper-and-pen experiments” in this document. More advanced experiments are organized by the course instructor and are described in the document “Guidelines for laboratory work”. To program an experiment in zTree, students should invest some time in understanding the programming tools used in this package. To guide them, a number of assignments are provided in the section “Programming experiment in zTree” in this document. Some of these assignments are used in the laboratory work. The most important grade components of the course are reviews of recently published papers and group research proposals. The section “Paper review” contains the list of papers suggested for reviewing along with paper-specific questions. The section “Group research projects” offers topics that might be developed by students.

Points for participation in role-plays and discussions are awarded if the students use additional information from supplementary readings and make explicit reference to the author and to the book/article they have used.

Mid-term colloquium In the colloquium, each presentation is based on a recent paper in experimental economics. At the beginning of the course, the instructor provides a list of suggested papers. The list includes a number of paper-specific questions. Examples of such paper-specific questions are provided in the document “Assignments”. A general structure of each presentation is the following: 1. Research question(s) and general motivation. 2. Research hypotheses and motivation for using experimental method. 3. Experimental design and its fit to research hypotheses. 4. Main results and answers to research question(s). 5. Students’ evaluation of the paper

Final Test consists of an multiple choice 20 questions based on the material covered within the course and successful implementation of all curriculum tasks.

Grading:

ECTS Grade	Points	Russian grade
A+	100-91 points	“excellent”: 100–80 points
B	90-81	
C	80-71	“good”: 79– 60 points
D	70-61	
F: failed	less than 60 points: failed	“satisfactory”: 59–40 points
		“unsatisfactorily”: failed, less than 40 points

Course Outline

- Module 1: Experiments in Economics
- Module 2: Individual Choice Experiments
- Module 3: Experimental Game Theory
- Module 4: Experimental Asset Markets
- Module 5: Lab Experiments in Labor
- Module 6: Field Experiments

Readings Sample:

Smith, Vernon L., Gerry L. Suchanek, and Arlington W. Williams. "Bubbles, crashes, and endogenous expectations in experimental spot asset markets." *Econometrica: Journal of the Econometric Society* (1988):

King, Ronald R. "Private information acquisition in experimental markets prone to bubble and crash." *Journal of Financial Research* 14.3 (1991): 197-206.

Smith, Vernon L., R. R. King, Arlington W. Williams, and M. Van Boening "The robustness of bubbles and crashes in experimental stock markets." (1993): 183-299.

Van Boening, Mark V., Arlington W. Williams, and Shawn LaMaster. "Price bubbles and crashes in experimental call markets." *Economics Letters* 41.2 (1993): 179-185.

Caginalp, Gunduz, David Porter, and Vernon Smith. "Initial cash/asset ratio and asset prices: An experimental study." *Proceedings of the National Academy of Sciences* 95.2 (1998): 756-761.

Caginalp, Gunduz, David Porter, and Vernon Smith. "Momentum and overreaction in experimental asset markets." *International Journal of Industrial Organization* 18.1 (2000): 187-204.

James, Duncan, and R. Mark Isaac. "Asset markets: How they are affected by tournament incentives for individuals." *American Economic Review* (2000): 995-1004.

Smith, Vernon L., Mark Van Boening, and Charissa P. Wellford. "Dividend timing and behavior in laboratory asset markets." *Economic Theory* 16.3 (2000): 567-583.