Motivations for efficiency and equity in the investment game

Stefan AMBEC
Toulouse School of Economics (INRA-LERNA), France,
Department of Economics, University ofGothenburg, Sweden
stefan.ambec@toulouse.inra.fr
Alexis GARAPIN
Univ. Grenoble Alpes, GAEL, F-38000 Grenoble, France
INRA, GAEL, F-38000 Grenoble, France
Alexis.Garapin@grenoble.inra.fr
Laurent MULLER
INRA, GAEL, F-38000 Grenoble, France
Univ. Grenoble Alpes, GAEL, F-38000 Grenoble, France
Laurent.Muller@grenoble.inra.fr
Bilel RAHALI
Univ. Grenoble Alpes, GAEL, F-38000 Grenoble, France
INRA, GAEL, F-38000 Grenoble, France
Bilel.Rahali@upmf-grenoble.fr

Key-words: investment game, triple dictator game, efficiency, equity, veil of ignorance, social preferences, risk attitudes

JEL classification: C72, D63, C91

We investigate motives that afford efficiency and equity in the investment game. We run the investment game with and without back payment. A subject invests in an asset which is tripled and transferred to a receiver. The latter may or may not return some money back. The back payment allows subjects to combine efficiency with equity. Efficiency and equity are measured in different institutions in a within-subjects framework. We also use the strategy method to explore all the strategy space of the returns in the investment game. In addition to the baseline treatment, we designed three treatments. In the first treatment, one of the two subjects is randomly designed as the social planner who decides on both investment and pay back without knowing his or her position (first or second) in the game. The subject is placed behind “a veil of ignorance” (Rawls, 1971). In the second treatment, subjects can pay to be assigned a particular position. In the third treatment, we inform subjects on the average of the investment decisions that have been made in the baseline treatment. We also control the participants’ motives by measuring subjects' risk attitudes and social orientations. Subjects perform the Holt and Laury (2002) test designed to measure individual attitudes towards risk. This test proposes ten paired lottery choice decisions. Subject also perform the so-called “ring test” (Griesinger and Livingston, 1973; Liebrand, 1984), in which subjects make 24 binary choices between combinations (own, other) of
payoffs. Results show that: (i) “being in the shoes” of both players (investor and receiver) greatly increases efficiency and equity (ii) making a player pay to obtain her or his preferred position (investor or receiver) decreases the number of equitable outcomes and (iii) informing subjects about others' behavior does not improve the overall performance. We observe a significant effect of conditional reciprocity on wealth sharing in the different treatments yet it does not systematically promote equity. Finally, the results also show that motives for efficiency and equity in both games are driven by other regarding preferences and not by risk-related considerations (except in some conditions).

References


