Abstract

Chapter I.

Recent theories of fairness (e.g., Bolton & Ockenfels, 2000; Fehr & Schmidt, 1999) have typically used the assumption of ex ante known pie size. Here I explore theoretically the ramifications of pie size being unknown ex ante. Using a simple allocation problem known as dictator game, I find that attitude to fairness is systematically and intuitively related to risk and risk attitude. Results from informal experiments support the model proposed here.

Chapter II.

The relationship between risk in the environment, risk aversion and inequality aversion is not well understood. Theories of fairness have typically assumed that pie sizes are known ex-ante. Pie sizes are, however, rarely known ex ante. Using two simple allocation problems – the Dictator and Ultimatum games – we explore whether, and exactly how, unknown pie sizes with varying degrees of risk ("endowment risk") influence individual behavior. We derive theoretical predictions for these games using utility functions that capture additively separable constant relative risk aversion and inequality aversion. We experimentally test the theoretical predictions using two subject pools: students at Czech Technical University and employees of Prague City Hall. We find that: (1) Those who are more risk-averse are also more inequality-averse in the Dictator game (and also in the Ultimatum game, but not statistically significantly so) in that they give more; (2) Using the within-subject feature of our design, and in line with our theoretical prediction, varying risk does not influence behavior in the Dictator game, but does in the Ultimatum game (contradicting our theoretical prediction for that game); (3) Using the within-subject feature of our design, subjects tend to make inconsistent decisions across games; this is true on the level of individuals as well as in the aggregate. This latter finding contradicts the evidence in Blanco et al. (2011); (4) There are no subject-pool differences once we control for the elicited risk attitude and demographic variables that we collect.

Chapter III.

We analyze non-pecuniary motives (reciprocity and inequality aversion) influencing contributions to public goods (paying taxes). We achieve this by analyzing data from an experiment in which subjects first had to earn income, from which they then contributed to public good provision. We study absolute and relative taxation schemes and also tax avoidance in situations with different efficiency of public good provision. The participants in our experiment show significant deviations from pure individual income maximization; the deviations were motivated by reciprocity considerations rather than by inequality aversion.