

Report on Bachelor Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

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Title of the thesis:	Experimental Testing of Game-Theoretical Predictions: The Ultimatum Game

OVERALL ASSESSMENT (*provided in English, Czech, or Slovak*):

This thesis is a lengthy survey of the literature devoted to experiments with the Ultimatum Game. This game is a quintessential bargaining game: it gives the proposer the full bargaining power (vesting him or her with a single take-or-leave offer) while it leaves the possibility of disagreement in the case that the follower disagrees. The only strong subgame-perfect equilibrium of purely selfish players is that the proposer offers a positive epsilon-offer, and the responder accepts.

The experimental evidence, not surprisingly, shows that this equilibrium is rarely played. A vast literature based on lab experiments then examines determinants of offers and responder's decisions (see Tables 1 and 2 with descriptive statistics collected from various sources). The prime contribution of this thesis is that a lot of literature (more than 5 pages of references) has been put into a single place and structured accordingly. At some points, the text switches between empirics and theory, and these points could have been selected differently. For instance, section 4.5.1 may come up into a theoretical part. Section 6 with "Theoretical models" may have preceded major empirical results, but these are very minor issues. Chapter 7 proposes an experiment (which has not been realized due to obvious prohibitive costs). It seems to be an interesting point of departure for future work.

A fundamental question, discussed also in the thesis, is not whether the lab experiments measure existing social behavior (they do, with some imprecision), but whether the setting they aim to test is the setting that the subjects play in. For example, Heinrich et al. (2001) show that subjects in some societies declined even hyper-fair offers because of fear that they would have to provide reciprocal large gifts in the future. This means that the subjects did not play the ultimatum game. Although this particular case may be ascribed to their lack of experience, a similar phenomenon exists for subjects in all societies; individuals follow norms and punish their violations because they are *used to play* a larger long-term game where not following a norm implies sanctions. An experiment aims to isolate these long-term consequences, but it is difficult if learning to the "new" environment is slow and timespan of the experiment is negligible relative to timespan of the large game.

My particular question for defence is how can self-selection be actually a source of useful information on the subjects' preferences (see p. 19)? (I do not see how to exploit the bias in the useful way.) This thesis is a comprehensive review of a large number of contributions in the recent literature, and therefore deserves, in my opinion, to be **graded with A**.

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	20
<i>Methods</i> (max. 30 points)	22
<i>Contribution</i> (max. 30 points)	26
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	88
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: *Martin Gregor*

DATE OF EVALUATION: *9th August, 2011*

Referee Signature