

Loss and Other-Regarding Preferences: Mutually Exclusive or Exclusively Mutual? Evidence From Loss-Framed Dictator Games

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Agenda

- Motivation & Research Questions
- Experimental Design
- Predictions
- Results
- Concluding Remarks: Limitations

1. Motivation and Research Questions

1. Motivation and Research Questions 1 / 2

- Neoclassical Assumption of Self-Centered Preferences and its violation
- Other-regarding preferences in the domain of losses: what do we know?
- Understudied, particularly in the context of strategic (Zhou and Wu, 2011) and Dictator Games
- Negative UBG and allocation decisions (Buchan *et al*, 2005, Zhou and Wu, 2011)
- ✓ Higher and more other-regarding offers than in an ordinary UBG
- Strategic Behavior , because of fear of rejection
- How will the allocator act in the domain of losses if there **DOES NOT** exist the fear of rejection?

1. Motivation and Research Questions 2 / 2

- Q1: How will the dictator divide the pie when both he and an anonymous recipient suffer simultaneous loss of equal amount before the allocation decision?
- Q2: How will the knowledge of the poverty level of the recipient affect the preferences of the dictator in the first scenario?
- ✓ The Recipient is a poor representative of a Central African Republic with an income of 99 cents per day and no savings
- Q3: What are the internal motivations driving the behavior of the dictator? (?)

2. The Experiment

2. The Experiment

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- Hypothetical Survey (Ben-Ner *et al*, 2008)
- Amazon Mechanical Turk used to collect subjects (Paolacci *et al*, 2010, Buhrmester *et al*, 2011)
- 4 treatments with a within subject design
- 4 versions of the survey: mixed order of treatments to control for order effects
- ✓ 122 approved answers (44.5%)
- ✓ At least 30 approved answer per survey
- Each approved answer gets paid 20 cents for participation

2. The Experiment

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- **“Standard” treatment**
- ✓ 15 Euros to be split by the dictator, no info about the recipient
- **“Standard & Loss” treatment**
- ✓ Dictator and the anonymous recipient suffer 10 Euro loss before the allocation decision
- ✓ Researchers takes 10 Euros for other unrevealed purposes
- **“Poverty” treatment**
- ✓ 15 Euros to be split by the dictator with a poor representative of a Central African Republic who has no savings and earns 99 cents per day
- **“Poverty & Loss” treatment**
- ✓ Dictator and the poor recipient suffer 10 Euro loss before the allocation decision
- ✓ How to frame the loss for the recipient, as he has nothing to lose?
 - The recipient has his 10€ hut burnt from a recent fire and has a 6-month debt from the community to rebuild it

2. The Experiment

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3. Predictions

Prospect Theory & Prediction 1

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- Loss Aversion (Kahnemann and Tversky, 1979)
- Loss-Framed Individuals are (De Dreu *et al*, 1994, 1996, Poppe and Valkenberg, 2003)
 - ✓ More own outcome oriented
 - ✓ More individualistic
 - ✓ Less concerned with equality
- **Prediction 1:** Self-Centered behavior is evidenced by the average dictator both in “Standard & Loss” and “Poverty & Loss”

2. Social Exchange Theory & Prediction 2

Question 1-Behavior in “Standard & Loss”

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- All power resides in Dictator
- ✓ Power of Agent A over B is a function measuring the dependence of B on A for scarce and valuable resources (Emerson, 1962)
- ✓ Power imbalance induces fairness motivation in the framework of DG (van Dijk and Vermunt, 2000)
- Equal amount of bi-directional loss does not distract power imbalance between the dictator and the anonymous recipient in “Standard & Loss”
- Prediction 2: In “Standard & Loss”;
 - a) Other-regarding motives of the average dictator are not offset by loss
 - b) Fairness is the main trigger of other-regarding preferences of the dictator, as in ordinary dictator game without the bi-directional loss (?)

2. Social Exchange Theory & Prediction 3

Question 2- Behavior in “Poverty & Loss”

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- Poor recipient has no economic slack in contrast to the dictator
- ✓ Economic Slack-the ease with which one can cut back consumption to satisfy unexpected need (Mullainathan and Shafir, 2009)
- In case of equal amount of bi-directional loss
- ✓ Poor Recipients cut back on the minimum daily consumption abstaining them from starvation
- ✓ Dictators ration wants rather than needs
- Bi-directional loss makes the value of each additional euro relatively more valuable for the recipient, than for the dictator, creating a stronger dependence relationship between the agents in “Poverty & Loss” than in “Poverty”
- Prediction 3:
 - a) Average other-regarding motives are stronger in “Poverty & Loss” than in “Poverty”
 - b) Altruism is the main trigger of other-regarding preferences of the dictator in the context of poverty, both with and without loss (?)

4. Results

4. Results “Standard” vs. “Standard & Loss”

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	Mean (Euro)	Whole Endowment	No Donation	Motives (?)
“Standard”	5.07€/15€ (34.4%)	3	18	Fairness
“Standard & Loss”	1.94€/5€ (38.8%)	17 (McNemar P-value= 0)	30 (McNemar P- Value= 0)	Fairness

- Result 1: Bi-directional loss on average preserves other-regarding preferences of the dictators
- Eliminating 17 subjects from both “Standard” and “Standard & Loss”
 - ✓ Mean Values: 30.9% (“Standard”) vs. 28.8% (“Standard & Loss”)
 - ✓ Difference is Statistically Insignificant
- Prediction 2 confirmed

4. Results

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	Mean (Euro)	Whole Endowment	No Donation	Motives (?)
“Poverty”	10.22€/15€ (67.4%)	41	2	Altruism
“Poverty & Loss”	3.88€/5€ (77.6%)	67 (McNemar P-value=0)	6 (McNemar P-value=0.125)	Altruism

- Result 2: Other-regarding motives are more salient in the case of “Poverty and Loss” than “Poverty”
- Prediction 3 confirmed

5. Concluding Remarks: Limitations

5. Concluding Remarks: Limitations 1 / 1

- **Hypothetical Choice**: if real money is involved
 - ✓ Endowment Effect (Thaler, 1980)
 - ✓ Status-quo bias (Zeckhauser, 1988)
- Windfall money
 - ✓ Earning own money can change the behavior even in the lab (List, 2007)
 - ✓ To my knowledge no model to deal with losses & social preferences

Thank you!!
Muchas Gracias!!
