

Master Seminar “Endogenous preferences: How culture, history and life events influence decision making”

Lecturer: Björn Vollan, Lukas Kampenhuber

Time & Place: 30.06.2017 (AA 011)

06.07.2017 (AA 011)

07.07.2017 (AA 011)

Kick-off meeting on May 3rd 2017, 12:00 at AA011 (Altes Amtsgericht)

Endogenous preferences are preferences that cannot be taken as given, but are affected by external factors such as economic shocks like natural disasters or conflict. Individual and social preferences are the foundation of human behavior and have shown to be significant determinants of individual-level welfare and aggregate-level growth.

Standard economic theory in the tradition of Gary Becker thinks about preferences as fixed. They assume that all alternatives can be ranked based on happiness, utility or satisfaction leading to optimal choices. Economists take individuals “*as they are*” without asking how they come to want and value things. Yet, preferences co-evolve with natural endowments, culture and history of a society.

There is a substantial body in the literature that advocates pro endogenous preference formation. This emerging literature examines the relationship between lifetime events or broader contextual factors and the evolution of preferences with the use of economic lab-in-the-field experiments in different settings or with applying natural experiments to original data sets. Experimental studies in this vein have investigated how – inter alia - market integration, religion, exposure to different political systems, production technologies, conflict, natural disasters and long-term resource scarcity affect behavior and report remarkable evidence in favor of endogenous preferences. Ultimately, if preferences change in certain situations policy analysis and scenarios relying on fixed preferences might be misleading as preferences might change simultaneously. If an economic policy or an exogenous shock affects the process of preference formation, then an analysis of the policy or the shock that takes preferences as given will yield erroneous conclusions.

This course offers a broader discussion about preference formation and how endogenous preferences play a substantial role in human behavior. With the help of economic literature students discuss current topics in this field of scientific research and gain a broader understanding of preference formation, and applied experimental economics and econometrics.

We recommend to read the following literature for the course:

- Peter J. Richerson and Robert Boyd (2005). *Not by Genes Alone: How Culture Transformed Human Evolution*. Chicago: University of Chicago Press.
- Henrich, J. (2015). *The secret of our success: how culture is driving human evolution, domesticating our species, and making us smarter*. Princeton University Press.

General remarks about the seminar:

1. Students are required to (a) hand in an essay and (b) present this essay. All participants will present their essay in a thirty minute presentation followed by a fifteen minute discussion.

Furthermore, one month after the kick off seminar students are expected to hand in an extended abstract (400-500 words). This Abstract should introduce the reader to the importance of the research question and describe the methodology, main results and implication of the paper you present.

2. Aim of the essay: Depending on the specific topic an own literature search should be done in order to be able to put the recommended paper(s) in a broader perspective. This is important for the introduction and conclusion of the essay. In the main part of their essay seminar participants will describe the empirical approach, quality of data, methods and conclusions of one or two specific papers. Hereby it is essential that the participants decide which information provided in the papers is important for the overall understanding. For theoretical papers it is important to discuss assumptions and plausibility. The conclusion of the term paper should consist of a critical acclaim of the chosen paper(s) (how reliable are the findings?) and answers the risen research question of the introduction of the term paper. The conclusion should also include a short "research proposal" that sketches a research design to address a related question.

3. The term paper needs to be finished and available for all participants as pdf at latest one week before the start of the seminar (at the end of the semester). The term paper should have 15 pages excluding figures and tables. The line spacing within the text should be 1,5 (1 for footnotes). A common and legible font should be used (ex. Times New Roman or Arial). The font size should be 12 within the academic text itself and 10 for footnotes. The block format should be used for paragraph formatting. The term paper should preferably be written in English.

4. The format of the term paper should follow the requirements of a master/diploma thesis. If any form of plagiarism is found the term paper will be rated with the grade 5,0. Term papers should include at least a minimum of linguistic elegance and accuracy.

You can apply to the seminar by sending an email (bjoern.vollan@wiwi.uni-marburg.de or lukas.kampenhuber@wiwi.uni-marburg.de) with your preferred two topics. Allocation will be done according to "first come first serve" criteria. The seminar will start with a kick-off meeting at the beginning of the semester where we will discuss the procedure of the seminar. The seminar will be held on two days at the end of the semester in 2017.

Topics to choose from:

1. Preferences, beliefs and constraints and implications of endogenous preferences

- Fehr, E., & Gintis, H. (2007). Human Motivation and Social Cooperation: Experimental and Analytical Foundations. *Annual Review of Sociology*, 33, 43-64.

- Bar-Gill, O., & Fershtman, C. (2005). Public policy with endogenous preferences. *Journal of Public Economic Theory*, 7(5), 841-857.

2. Development of preferences from childhood to adolescents

- Sutter, M., Kocher, M. G., Glaetzel-Ruetzler, D., & Trautmann, S. T. (2013). Impatience and Uncertainty: Experimental Decisions Predict Adolescents' Field Behavior. *American Economic Review*, 103(1), 510-531.
- Castillo M., Ferraro P. J., Jordan J. L. & Petrie R. (2011) The today and tomorrow of kids: Time preferences and educational outcomes of children. *Journal of Public Economics* 95: 1377–1385

3. Stability of preferences

- Carlsson, F., O. Johansson-Stenman, and P. K. Nam (2014). Social preferences are stable over long periods of time. *Journal of Public Economics* 117, 104–114.
- Yating Chuang, Laura Schechter, Stability of experimental and survey measures of risk, time, and social preferences: A review and some new results, *Journal of Development Economics*, Volume 117, November 2015, Pages 151-170

4. Stability of personality traits

- Shiner, Rebecca, and Avshalom Caspi. 2003. "Personality Differences in Childhood and Adolescence: Measurement, Development, and Consequences." *Journal of Child Psychology and Psychiatry* 44 (1): 2–32.
- Specht, Jule, Wiebke Bleidorn, Jaap J A Denissen, Marie Hennecke, Roos Hutteman, Christian Kandler, Maike Luhmann, Ulrich Orth, Anne K. Reitz, and Julia Zimmermann. 2014. "What Drives Adult Personality Development? A Comparison of Theoretical Perspectives and Empirical Evidence." *European Journal of Personality* 28 (3): 216–30.

5. The effect of history on social preferences

- Nathan Nunn (2008) The Long-term Effects of Africa's Slave Trades, *The Quarterly Journal of Economics*, 123 (1): 139-176
- Nunn N, Wantchekon L. The Slave Trade and the Origins of Mistrust in Africa. *American Economic Review*. 2011;101 (7) :3221-3252
- Hoffman, Mitchell. "Does higher income make you more altruistic? evidence from the holocaust." *Review of Economics and Statistics* 93.3 (2011): 876-887.
- Grosjean, Pauline. "Conflict and social and political preferences: Evidence from World War II and civil conflict in 35 European countries." *Comparative Economic Studies* 56.3 (2014): 424-451.

6. The effect of production technology on preferences

- Leibbrandt, A., Gneezy, U., & List, J. A. (2013). Rise and fall of competitiveness in individualistic and collectivistic societies. *Proceedings of the National Academy of Sciences of the United States of America*, 110(23), 9305-9308.
- T. TALHELM, X. ZHANG, S. OISHI, C. SHIMIN, D. DUAN, X. LAN, S. KITAYAMA (2014) Large-Scale Psychological Differences Within China Explained by Rice Versus Wheat Agriculture, *Science*, 9: 603-608

- Dercon, Stefan, and Luc Christiaensen. "Consumption risk, technology adoption and poverty traps: Evidence from Ethiopia." *Journal of Development Economics* 96.2 (2011): 159-173.

7. The effect of culture and history on gender roles

- Alesina, A., P. Giuliano, and N. Nunn (2013). On the origins of gender roles: Women and the plough. *The Quarterly Journal of Economics* 128 (2), 469–530.
- Gneezy, U., K. L. Leonard, and J. A. List (2009). Gender Differences in Competition: Evidence from a Matrilineal and a Patriarchal Society. *Econometrica* 77 (5), 1637–1664.
- Geary, David C., et al. "Sexual jealousy as a facultative trait: Evidence from the pattern of sex differences in adults from China and the United States." *Ethology and Sociobiology* 16.5 (1995): 355-383.

8. East vs West Germany

- Ockenfels, A., & Weimann, J. (1999). Types and patterns: an experimental East-West-German comparison of cooperation and solidarity. *Journal of Public Economics*, 71, 275-287.
- Alesina, Alberto and Nicola Fuchs-Schündeln. 2007. "Goodbye Lenin (or Not?): The Effect of Communism on People." *American Economic Review*, 97(4): 1507-1528.
- J. Brosig, C. Helbach, A. Ockenfels, J. Weimann (2011) Still different after all these years: solidarity behavior in East and West Germany, *J. Publ. Econ.*, 95: 1373–1376
- Friehe and Mechtel (2014) Conspicuous consumption and political regimes: Evidence from East and West Germany, *European Economic Review*, 67: 62–81

9. The effect of culture on social preferences

- Fehr, E. and Hoff, K. (2011), Introduction: Tastes, Castes and Culture: the Influence of Society on Preferences. *The Economic Journal*, 121: F396–F412.
- Henrich, J., Boyd, R., Bowles, S., Camerer, C. F., Fehr, E., Gintis, H., et al. (2005). "Economic man" in cross-cultural perspective: behavioral experiments in 15 small-scale societies. *Behavioral and Brain Sciences*, 28, 795-815; discussion 815-755.
- Henrich, J., Ensminger, J., McElreath, R., Barr, A., Barrett, C., Bolyanatz, A., et al. (2010). Markets, religion, community size, and the evolution of fairness and punishment. *Science*, 327, 1480-1484.

10. The effect of culture on risk preferences

- Vieider, Ferdinand M., Mathieu Lefebvre, Ranoua Bouchouicha, Thorsten Chmura, Rustamdjan Hakimov, Michal Krawczyk, Peter Martinsson (2015). Common components of risk and uncertainty attitudes across contexts and domains: Evidence from 30 countries. *Journal of the European Economic Association* 13(3), 421-452
- Vieider, Ferdinand M., Thorsten Chmura, Tyler Fisher, Takao Kusakawa, Peter Martinsson, Frauke Mattison Thompson, & Adewara Sunday (2015). Within- versus Between-Country Differences in Risk Attitudes: Implications for Cultural Comparisons. *Theory and Decision* 78(2), 209-218

11. The effect of disasters on risk preferences

- L. Cameron, M. Shah (2015) Risk-taking behavior in the wake of natural disasters *J. Hum. Resour.*, 50 (2), pp. 484–515
- L. Page, D.A. Savage, B. Torgler (2014) Variation in risk seeking behaviour following large losses: a natural experiment, *Eur. Econ. Rev.*, 71, pp. 121–131
- Hanaoka, Chie, Hitoshi Shigeoka, and Yasutora Watanabe. Do risk preferences change? Evidence from panel data before and after the great east Japan earthquake. No. w21400. National Bureau of Economic Research, 2015.
- Eckel C. C., El-Gamal M. A. & Wilson R. K. (2009) Risk loving after the storm: A Bayesian-Network study of Hurricane Katrina evacuees. *Journal of Economic Behavior & Organization* 69: 110–124

12. The effect of disaster on social preferences

- Cassar, A., Healy, A., & von Kessler, C. (2011). Trust, Risk, and Time Preferences After a Natural Disaster: Experimental Evidence from Thailand, Working Paper University of San Francisco.
- Bchir, Mohamed A., and Marc Willinger. "Does the exposure to natural hazards affect risk and time preferences? Some insights from a field experiment in Perú." Unpublished Manuscript (2013).
- Castillo, Marco, and Michael Carter. "Behavioral responses to natural disasters." Unpublished Manuscript (2011).
- Callen, Michael. "Catastrophes and time preference: Evidence from the Indian Ocean Earthquake." *Journal of Economic Behavior & Organization* 118 (2015): 199-214.

13. The effect of conflict on risk preferences

- Cavatorta, Elisa, and Ben Groom. "Preferences and Exposure to Shocks: Evidence from a Natural Experiment in Palestine." Annual Conference 2014 (Hamburg): Evidence-based Economic Policy. No. 100592. Verein für Socialpolitik/German Economic Association, 2014.
- Callen, Michael, et al. "Violence and risk preference: Experimental evidence from Afghanistan." *The American Economic Review* 104.1 (2014): 123-148.

14. The effect of conflict on social preferences

- Voors, M. J., Nillesen, E. E. M., Verwimp, P., Bulte, E. H., Lensink, R., & Van Soest, D. P. (2012). Violent Conflict and Behavior: A Field Experiment in Burundi. *American Economic Review*, 102(2), 941-964.
- Bauer, M., Cassar, A., Chytilova, J., & Henrich, J. (2014). War's Enduring Effects on the Development of Egalitarian Motivations and In-Group Biases. *Psychological Science*, 25(1), 47-57.
- Gneezy, Ayelet, and Daniel MT Fessler. "Conflict, sticks and carrots: war increases prosocial punishments and rewards." *Proc. R. Soc. B. Vol. 279. No. 1727. The Royal Society*, 2012.

15. The effect of life events on time preferences

- Meier S. & Sprenger C. D. (2015) Temporal stability of time preferences. *Review of Economics and Statistics* 97: 273–286
- Ubfal D. (2016) How general are time preferences? Eliciting good-specific discount rates. *Journal of Development Economics* 118: 150–170

16. Cultural group selection

- Henrich, Joseph. (2004) Cultural group selection, coevolutionary processes and large-scale cooperation. *Journal of Economic Behavior & Organization* 53.1: 3-35
- Peter, Richerson et al. (2016) "Cultural group selection plays an essential role in explaining human cooperation: a sketch of evidence. *Behavioral and Brain Sciences*: 1-65

17. Evolution of Preferences

- Robson, Arthur and Larry Samuelson (2009) The Evolution of Time Preference with Aggregate Uncertainty *American Economic Review* 99(5), pp.1925-1953
- Robson, A. J., & Samuelson, L. (2010). The evolutionary foundations of preferences. *Handbook of social economics*, 1, 221-310.
- Rayo, L., & Becker, G. S. (2007). Evolutionary efficiency and happiness. *Journal of Political Economy*, 115(2), 302-337.

18. Geno-economics

- Ashraf, Q., & Galor, O. (2013). The "Out of Africa" hypothesis, human genetic diversity, and comparative economic development. *The American Economic Review*, 103(1), 1-46.
- Spolaore, E., & Wacziarg, R. (2009). The diffusion of development. *The Quarterly Journal of Economics*, 124(2), 469-529.

19. Endogenous Preferences

- Bowles, S. (1998). Endogenous Preferences: The Cultural Consequences of Markets and other Economic Institutions. *Journal of Economic Literature*, 36, 75-111.
- Bowles, S. (2008). Policies designed for self-interested citizens may undermine "the moral sentiments": evidence from economic experiments. *Science (New York, N.Y.)*, 320, 1605-1609.
- Lévy-Garboua, Louis, Claude Meidinger, and Benoit Rapoport. "The formation of social preferences: Some lessons from psychology and biology." *Handbook of the economics of giving, altruism and reciprocity* 1 (2006): 545-613.

20. Resource scarcity

- Homer-Dixon, Thomas F. "Environmental scarcities and violent conflict: evidence from cases." *International security* 19.1 (1994): 5-40.
- Wolf, A. T. (1998). Conflict and cooperation along international waterways. *Water policy*, 1(2), 251-265.
- Cherry, T. L., Kroll, S., & Shogren, J. F. (2005). The impact of endowment heterogeneity and origin on public good contributions: evidence from the lab. *Journal of Economic Behavior & Organization*, 57(3), 357-365.
- Prediger, S., Volland, B., & Herrmann, B. (2014). Resource scarcity and antisocial behavior. *Journal of Public Economics*, 119, 1-9.

