Resit Exam Solutions

Full name: .....

Student number: .....

1. This exam consists of three parts. Questions 1-8 are multiple-choice, questions 9-11 are true/false including an explanation, and question 12 is of an essay-type.
2. The number of points to be earned for each question is indicated in parentheses.
3. There is only one correct answer to each multiple-choice question. A correct answer is worth 1 point, an incorrect answer is worth -0.5 points. No answer is worth 0 points.
4. Fill in the answer grid below for questions 1-11, on which the evaluation is based.
5. Please keep your answers to questions 9-12 as short as possible.
6. Any kind of consultation is not allowed.
7. Write clearly and readable.
8. Turn off mobile phones, computers, tablets, and smartwatches. Their use will be considered fraud. The use of a non-graphical calculator is allowed.
9. Write your full name and student number on every answer sheet.
10. Return this answer sheet even if you withdraw from the exam.

Answer Grid

	1	2	3	4	5	6	7	8	9	10	11
a		x									
b	x		x		x	x					
c				x			x				
d								x			
True											
False											

PART 1 (8 points) – multiple-choice (choose the best answer)

1. A good that is non-excludable and non-rival in consumption is likely to be underprovided by voluntary private contributions because
   a. the efficient price of consumption is positive.
   b. individuals can benefit even if they do not contribute.
   c. private benefits are always larger than social benefits.
   d. rival consumption creates congestion.

2. In the trust game, the trustor sends a share s of an endowment x to the trustee, and the transfer is multiplied by m > 1. Which statement is correct?
   a. Total surplus increases with the amount sent by the trustor.
   b. Total surplus depends only on the trustee's return decision.
   c. A selfish trustee should return the full multiplied amount.
   d. The trustor's transfer cannot affect efficiency.

3. Increasing realism by conducting a field experiment is NOT so important if the purpose of the experiment is
   a. to test the effect of high stakes.
   b. to test the assumptions of an economic theory.
   c. to advise policy makers.
   d. to generalize results to a different subject pool.

4. A controlled economic experiment is a method of creating a counterfactual by directly constructing a control group via
   a. Selection
   b. Comparison
   c. Randomization
   d. none of the above

5. In a double auction market, suppose the competitive equilibrium price is 10. According to the standard prediction, a price ceiling of 12 should
   a. reduce the number of trades because all price ceilings are binding.
   b. have no effect on the market outcome because it is non-binding.
   c. increase prices by acting as a focal point.
   d. make all sellers leave the market.

6. A perfect stranger design means that
    a. subjects cannot be friends outside the lab
    b. subjects are never rematched with the same person
    c. groups are recomposed randomly every round
    d. anonymity is guaranteed

7. Public good experiments with punishment show that
    a. punishment decreases contributions
    b. punishment is concentrated on high contributions
    c. punishment is concentrated on low contributions
    d. punishment is very effective to increase players' earnings

8. When subjects participate in more than one treatment per session the experimenter
    a. loses statistical power
    b. can't observe individual fixed effects
    c. must trust the randomization procedure
    d. must control for sequence effects

PART 2 (7.5 points) – True or false and explain *why* in no more than 5 lines.
(A true or false response without an explanation earns 0 points)

9. Controlled experiments are the most convincing method of creating the counterfactual because the experimenter chooses who is going to be in the control condition and in the treatment condition.

   False. Randomization, not the experimenter's choice, is what makes the control group valid. Random group assignment ensures causality; without it, selection bias undermines the counterfactual._

10. In experimental asset markets, bubbles cannot occur if all traders know the fundamental value of the asset.

    False. Common knowledge of fundamental value is not sufficient to prevent bubbles. Bubbles arise from uncertainty about *others'* beliefs (higher-order beliefs), not just individual knowledge. As long as people believe they can anticipate the crash before others can, it is understandable that they still buy at prices above the fundamental value.

11. In a double auction market experiment, observing transaction prices close to the competitive equilibrium price necessarily implies that the market outcome is efficient.

    False. Prices close to equilibrium indicate *price efficiency* but not necessarily *allocative efficiency*. If trades happen at the right price but between the wrong buyers and sellers (e.g., low-value buyers trade instead of high-value ones), efficiency is not achieved.

PART 3 (4.5 points) – Essay type of question (Answer in no more than 15 lines.)

12. Suppose a student association wants to allocate one indivisible object, for example, one highly demanded parking permit or one donated concert ticket, to the student who values it the most. The association does not know students' willingness to pay and wants a minimal procedure in which it is in each student's interest to reveal their true value.

    Design an incentive-compatible auction procedure to allocate the object and determine the price paid by the winner. Your task is to write the instructions that would be shown to participants in the experiment. Make clear how bids are submitted, who wins, what price is paid, and why truthful bidding is optimal.

    The expected answer is a **second-price auction** — students submit sealed bids, the highest bidder wins, but pays the *second-highest* bid. Truthful bidding is a dominant strategy because (a) overbidding risks paying more than your value, and (b) underbidding risks losing despite having the highest value. The instructions should specify: sealed bids, one round, winner = highest bidder, price = second-highest bid.