

Essay — Papers for discussion

2019-20

Instructions

For your essay choose a paper from the list below. Your essay should present the main ideas in the paper in your own words. A good essay will discuss the importance of those ideas and later developments in the literature that the paper may have inspired.

Quoting. Most likely you already know this, but to be on the safe side here it goes. When quoting clearly identify the text quoted, either with quotation marks or block quote, and indicate the source, typically with author's name and year of publication, with full details in the bibliography at the end, and the page number of the text. If you choose to paraphrase instead of quoting you should also indicate the source of the text paraphrased. Failure to do this is plagiarism, i.e. presenting someone else's words as your own work. You may write your essay in English or Portuguese. Even if you write in Portuguese, quotes from English publications may be included without translation.

Instruções

Escolha da lista abaixo um paper para o seu trabalho. O seu trabalho deve apresentar por palavras suas as ideias principais do paper. Um bom trabalho discutirá a importância dessas ideias e desenvolvimentos na literatura inspirados nesse paper.

Citações. O mais certo é já saber isto, mas pelo seguro cá vai. Quando citar, identifique claramente o texto citado, ou com aspas ou citação em bloco, e indique a fonte, normalmente com o nome do autor e ano da publicação, com os dados completos na bibliografia no fim do trabalho, e página do texto citado. Se preferir parafrasear em vez de citar, é igualmente importante indicar a fonte to texto parafraseado. Não fazer isto constitui plágio, isto é, apresentar as palavras de outro como se fossem obra sua. Pode escrever o trabalho em inglês ou português. Mesmo que escreva em português, obras em inglês podem ser citados no original sem necessidade de traduzir.

List of Papers

Matching and Mechanism Design:

1. A. Abdulkadiroglu and T. Sonmez (2003), School choice: A mechanism design approach, *American Economic Review* 93, 729-747.
2. L. E. Dubins and D. A. Freedman. Machiavelli and the Gale-Shapley algorithm (1981), *American Mathematical Monthly*, 88:485–494.
3. H. Ergin and T. Sonmez (2006), Games of School Choice under the Boston Mechanism, *Journal of Public Economics*, 90, 215-237.
4. D. Gale and L. Shapley (1962), College admissions and the stability of marriage, *American Mathematical Monthly* 69, 9–15.
5. J. H. Kagel and A. Roth (2000), The dynamics of reorganization in matching markets: A laboratory experiment motivated by a natural experiment. *Quarterly Journal of Economics*, 115:201–235.
6. S. Kominers, A. Teytelboym, and V. P. Crawford (2017), An invitation to market design. Oxford Review of Economic Policy, Oxford University Press, vol. 33(4), pages 541-571.

7. J. Pais (2008), Incentives in Decentralized Random Matching Markets, *Games and Economic Behaviour* 64, 632-649.
8. J. Rochet and J. Tirole (2006), Two-Sided Markets: A Progress Report, *The RAND Journal of Economics*, Vol. 37(3), 645–667.
9. A. Roth (1982), The economics of matching: stability and incentives, *Mathematics of Operations Research* 7, 617–628.
10. A. Roth (1984), The evolution of the labor market for medical interns and residents: A case study in game theory. *Journal of Political Economy*, 92:991–1016.
11. A. Roth (2002), The economist as engineer: Game theory, experimentation, and computation as tools for design economics, *Econometrica* 70 (4), 1341–1378.
12. A. Roth and E. Peranson (1999), The effects of the change in the NRMP matching algorithm. *American Economic Review*, 89:748–780.
13. A. Roth, T. Sonmez, and U. Unver (2004), Kidney Exchange. *Quarterly Journal of Economics* 119: 457-488.

Asymmetric Information

14. Spence, A. M. (1973). "Job Market Signalling," *Quarterly Journal of Economics*, 87, 355-74.
15. Rothschild, M. and J. E. Stiglitz (1976), "Equilibrium in Competitive Insurance Markets: An Essay in the Economics of Imperfect Information," *Quarterly Journal of Economics*, 80, 629-49.
16. Wilson, C. (1977). "A Model of Insurance Markets with Incomplete Information," *Journal of Economic Theory*, 16, 167-207.
17. Holmstrom, B. (1979), "Moral Hazard and Observability," *Bell Journal of Economics*, 10, 74-91.
18. Grossman, S. T. and O. D. Hart (1983). "An Analysis of the Principal-Agent Problem," *Econometrica*, 51, 7-45.

Experimental Economics

Choice-Matching Disparity, Prominence and Compatibility Hypotheses

19. Tversky, A., S. Sattah, and P. Slovic (1988). "Contingent Weighting in Judgement and Choice," *Psychological Review*, 95, 371-84.

The following papers will not be directly or extensively covered in class. But they are all experimental papers, and very easy to understand.

Common Ratio Effect.

20. Cubitt, R., C. Starmer and R. Sugden (1998). "Dynamic Choice and the Common Ratio Effect: An experimental Investigation," *The Economic Journal*, 108, 1362-80.

Testing the Validity Random Lottery Incentive System. This system was explained in class. It consist of selecting among all tasks performed by subjects just one to be paid for real. The aim is to avoid

income and portfolio effects. But its validity has been called into question (Holt's critique, covered in class).

21. Starmer, C. and R. Sugden (1991). "Does the Random Lottery Incentive System Elicit True Preferences," *American Economic Review*, 81, 971-78.
22. Cubitt, R., C. Starmer and R. Sugden (1998), "On the Validity of the Random Lottery Incentive System," *Experimental Economics*, 1, 115-31.

Endowment Effect. To see whether people prefer *A* or *B*, you could give them *A* and later ask whether they would like to trade if for *B*; or give them *B* and ask whether they would like to trade it for *A*. According to economic theory the preference for one item over the other should not depend on whether you have it in the first place or not. But in reality it looks as though it does.

23. Kahneman, D., J. L. Knetsch, and R. H. Thaler (1990). "Experimental Tests of the Endowment Effect and the Coase Theorem," *The Journal of Political Economy*, 98(6), 1325-48.

Testing the Altruism Hypothesis in Dictator Games. In dictator games, two subjects are randomly paired; they do not know or meet each other; one (the dictator) is given an amount of money, and can then give part of it, whatever he likes, to the other one. Contrary to economic theory predictions, dictators give some money. This has been interpreted as altruism. Bardsley's experiment tests this hypothesis.

24. Bardsley, N. (2008). "Dictator Game Giving: Altruism or Artefact?" *Experimental Economics*, 11, 122-33.

Learning and Correction of Anomalies in Repeated-Market Experiments. It had been claimed that deviations of behaviour observed in economic experiments from the predictions of standard economic theory of rational choice are greatly reduced or disappear altogether when subjects have the opportunity to learn from repetition and feedback in experimental market-like environments. The following papers test this hypothesis.

25. Knetsch, J., F. Tang and R. Thaler (2001). "The Endowment Effect and Repeated Market Trials: Is the Vickrey Auction Demand Revealing?" *Experimental Economics*, 4, 257-69.
26. Braga, J., S. Humphrey, and C. Starmer, (2009). "Market Experience Eliminates Some Anomalies—And Creates New Ones," *European Economic Review*, 53(4), 401-16.