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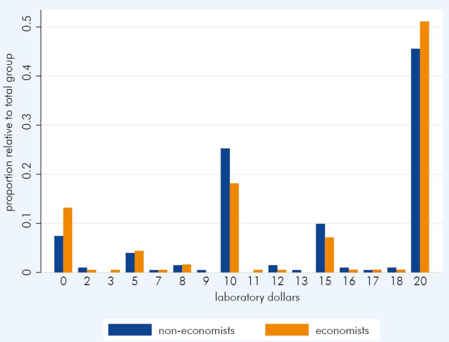
Economists – and the others

People with a background in economics react more strongly to financial incentives – both positively and negatively, as Dmitri Bershadskyy of the Halle Institute for Economic Research (IWH) – Member of the Leibniz Association – found out. At the beginning of his laboratory experiment, economists were prepared to spend more money on a public good and keep to this social behaviour for a longer period than non-economists. However, towards the end of the experiment they were also the greatest free-riders.

Economists have long been thought to make decisions differently to non-economists. And this assumption is no wonder: experiments in the past have shown that economists actually behave more like *homo oeconomicus* than non-economists do, i.e. they concentrate more strongly on maximising their own utility. In the case of public services, such as street lighting, the interest of the individual – to benefit, but contribute as little as possible – is often in contrast with the optimum for society, i.e. to have the street fully lit. This is why such services are usually publicly financed. Under which conditions individuals, however, are also prepared to help pay for public services is explored in these kinds of experiments. The focus lies on two factors: the individual's own character, but also his or her expectations regarding the willingness to cooperate of the other members of the community. For whether or not a person will pay for a public good also depends on whether other people are willing to do so too. Such experimental studies have in fact shown that economists tend to share public goods but contribute less to them than other groups of people.

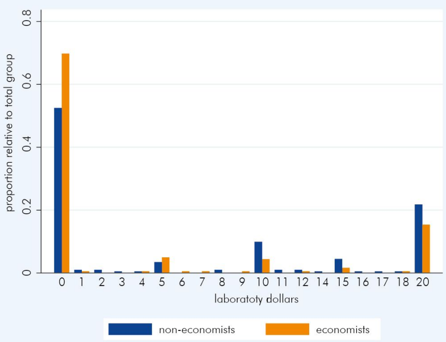
Figure 1
Contributions in the first round



Sample reading: 18% of the economists and 25% of the non-economists contributed 10 laboratory dollars in the first round.

Source: IWH calculations and illustration.

Figure 2
Contributions in the second round



Sample reading: In the last round, 70% of the economists paid 0 laboratory dollars, 15% of the non-economists contributed 20 laboratory dollars.

Source: IWH calculations and illustration.

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In order to now examine the differences between economists and non-economists more closely, in a laboratory experiment Bershadskyy tested the behaviour of economists at different points in time: “At the beginning of the experiment, a higher percentage of the economists do in fact behave like free-riders. But there are more economists who make optimal social contributions,” said Bershadskyy. “Furthermore, on average they pay optimal social contributions for one round longer.” On the whole, however, their cooperation steadily decreases over time.

The biggest differences then emerge towards the end of the experiment, during what is known as the *endgame*. During this phase, it is far more tempting to contribute nothing towards the public goods because a refusal to cooperate will no longer have any consequences. Economists then make considerably lower contributions than non-economists.

According to Bershadskyy, there can be several reasons for the different behaviour exhibited by the economists: “A selection effect may be possible, for example. This would mean that people who are naturally more conscious of incentives tend to study economics more often than other people. An educational effect is also conceivable: in the course of their studies, economists deal more intensively with incentive structures, which sharpen their sensitivity to them.”

The differences between economists and non-economists can thus influence the results of behavioural economics: “Our results show that caution must always be exercised when drawing conclusions for real life based on laboratory experiments, because often a considerable number of the test persons come from economics and business courses. As we have shown, this fact can distort the results,” explained the economist.

During the survey, 84 students took part in an experiment involving public goods and lasting for several rounds. In the course of the experiment, the test subjects were able to win laboratory dollars, which were converted into real euros and paid out to them according to their game results at the end of the experiment. The experiment consisted of three parts. In the first part, the financing of a public good was simulated, whereby the participants were able to invest their own personal laboratory money. The test persons had to decide in groups whether they wanted to keep their money budget received at the beginning of the game or whether they wanted to invest it in the public good. Any personal money kept remained unchanged in value. However, all of the money invested in the public good was doubled and paid out to all the members of the community in equal parts at the end. Before the beginning of the second part, the groups were reshuffled. In the new groups, the test subjects were able to communicate with each other briefly; this opportunity for personal exchange strongly increased the contributions to the public good. Following the communication phase, in their groups the test subjects repeated the same mechanism of voluntary contributions over ten rounds. After that, the groups were reshuffled again. In the third part of the experiment, the participants had the option of financing as a group the efficient communication platform they had become acquainted with in the second part. The individuals were informed about the cost of the platform and were to contribute to it independently of each other. If the contributions of a group turned out higher than the stated cost of the platform, they were also allowed to communicate in the third round prior to the first contribution period. Otherwise the experimental rounds had to be repeated, with no communication allowed.

Publications:

Bershadskyy, Dmitri: Die Mär vom egoistischen Ökonomen – Wie Ökonomen auf Anreize reagieren, in: IWH, Wirtschaft im Wandel, Vol. 24 (1), 2018, 8-11.

Altemeyer-Bartscher, Martin; Bershadskyy, Dmitri; Schreck, Philipp; Timme, Florian: Endogenous Institution Formation in Public Good Games: The Effect of Economic Education. IWH Discussion Papers No. 29/2017. Halle (Saale), 2017.

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The Halle Institute for Economic Research (IWH) – Member of the Leibniz Association was founded in 1992. With its three research departments – Macroeconomics. Financial Markets. and Structural Change –,IWH conducts economic research and provides economic policy recommendations. which are founded on evidence-based research. With the IWH's guiding theme "From Transition to European Integration". the institute's research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability. microeconomic innovation processes. productivity and labour markets. the dynamics of structural adjustment processes. financial stability and growth and the role of financial markets for the real economy.

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