

DISSERTATION ABSTRACT

ERIC CARDELLA

My dissertation is titled “Behavioral Influences in Strategic Decision Making”. In a broad sense, my dissertation research uses behavioral models and experimental methods to explore behavioral motivations in strategic decision making. Economic outcomes are shaped by the decisions that agents make, and decisions are shaped by motivations. Hence, the goal of my dissertation research is to provide valuable insights regarding the existence and impact of behavioral motivations in strategic decision making. In gathering such insights, my dissertation research combines methodology from the fields of economics, game theory, psychology, and sociology. Below I provide a summary of the three chapters that comprise my dissertation.

The first chapter of my dissertation and job market paper, titled “Strategic Guilt Induction”, explores the interpersonal strategic implications of guilt aversion. The motivation to avoid feeling guilty exhibited by agents has been modeled theoretically (Battigalli and Dufwenberg 2007) and documented experimentally (Dufwenberg and Gneezy 2000; Charness and Dufwenberg 2006; Reuben et al. 2009; and Dufwenberg et al. 2011). However, the guilt aversion of one agent can influence the strategic behavior of other agents, and subsequently the economic outcome, in important ways that have yet to be explored. In certain settings, agents may have an opportunity to influence the behavior of a guilt averse agent by strategically inducing guilt upon that agent. The motivation of this paper is to investigate (i) whether agents exploit the guilt aversion of others by strategically inducing guilt upon them, (ii) whether agents are susceptible to guilt induction, and (iii) whether agents exhibit higher degrees of trust when given an opportunity to induce guilt. In doing so, I develop an experimental design featuring a private information trust game that provides agents with an opportunity to induce guilt in a manner consistent with the psychological insights of Baumeister et al. (1994). Furthermore, I appeal to the Battigalli and Dufwenberg model of simple guilt and derive conditions under which effective guilt induction in the given psychological game can be supported as an equilibrium.

The second chapter, based off the paper “Learning to Make Better Strategic Decisions”, experimentally investigates how an opponent’s decisions affect learning in a strategic game. Specifically, the primary motivation of this paper is to test whether learning-by-doing (LBD) and learning-by-observing (LBO) in strategic settings become more effective when agents face an optimal decision making opponent. As a secondary motivation, I compare the effectiveness of LBD and LBO in a strategic game, which complements the work of Merlo and Schotter (2003). To shed light on these questions, I consider a novel experimental design where subjects repeatedly play a 2-player, sequential-move game against pre-programmed computer opponents. The chosen game features a dominant strategy, which serves as an identifiably proxy for optimal decision making and, hence, enables me to measure learning. While the use of pre-programmed

computer opponents allows me to explicitly control the decision making quality of an agent's opponent. The main results suggest that in the strategic game considered, LBD is more effective when agents play against an optimal decision making opponent, and LBD and LBO appear to be comparably effective learning mechanisms. This paper is currently a revise and resubmit at *Journal of Economic Behavior & Organization*.

The third chapter, based off the paper "Why Negotiate a 'Fair' Price?", develops a theoretical model of posted price fairness concerns in negotiations. The model posits that buyers experience disutility from engaging in negotiations with a seller, and *aggressively* negotiating, when the posted price is perceived to be "fair". As a result, buyers will negotiate less aggressively when the posted price is perceived to be fair, and buyers who are sensitive *enough* to posted price fairness may forgo profitable negotiations altogether and simply purchase the good at the posted price. Such predictions are consistent with the empirical evidence documented in Maxwell et al. (1999), Kristensen and Gärling (1997, 2000), and Herrmann (2004).

CITED PAPERS

- Battigalli, P., & Dufwenberg, M. (2007). "Guilt in Games." *American Economic Review* 97, 170-176.
- Baumeister, R., Stillwell, A., & Heatherton, T. (1994). "Guilt: An Interpersonal Approach." *Psychological Bulletin* 115, 243-267.
- Charness, G., & Dufwenberg, M. (2006). "Promises and Partnership." *Econometrica* 74, 1579-1601.
- Dufwenberg, M., Gächter, S., & Hennig-Schmidt, H. (2011). "The Framing of Games and the Psychology of Play." *Games and Economic Behavior* (In Press).
- Dufwenberg, M., & Gneezy, U. (2000). "Measuring Beliefs in an Experimental Lost Wallet Game." *Games and Economic Behavior* 30, 163 – 182.
- Gneezy, A., Gneezy, U., Nelson, L., & Brown, A. (2010). "Shared Social Responsibility: A Field Experiment in Pay-What-You-Want Pricing and Charitable Giving." *Science* 329, 325-327.
- Herrmann, G. (2004). "Haggling Spoken Here: Gender, Class, and Style in US Garage Sale Bargaining." *The Journal of Popular Culture* 38, 55-81.
- Kristensen, H., & Gärling, T. (1997). "Adoption of Cognitive Reference Points in Negotiations." *Acta Psychologica* 97, 277-288.
- Kristensen, H., & Gärling, T. (2000). "Anchor Points, Reference Points, and counter-offers in Negotiations." *Group decision and Negotiation* 9, 493-505.
- Maxwell, S., Nye, P., & Maxwell, N. (1999). "Less Pain, Same Gain: The Effects of Priming Fairness in Price Negotiations." *Psychology & Marketing* 16, 545-562.
- Merlo, A., Schotter, A., (2003). "Learning by not Doing: An Experimental Investigation of Observational Learning." *Games and Economic Behavior* 42, 116-136.
- Reuben, E., Sapienza, P., & Zingales, L. (2009). "Is Mistrust Self-Fulfilling?" *Economic Letters* 104, 89-91.