

## Pro-Social Preferences and Experiments<sup>1</sup>

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### Why do this in-class experiment?

Much of the discussion in Economics classes will center around maximizing utility, usually equivalent to monetary gain from a certain task. This particular discussion focuses on the importance of pro-social behavior – we empirically show that people in class display pro-social preferences, discuss data on giving in the U.S. (can discuss about the world as well), and tie this back into the indifference curve+budget constraint framework common in Microeconomics courses.

You can start the class by asking questions of students about how much they have given to charity, what they would do if another student needed their help, and how that decision would fit in with their Cost/Benefit analysis of the decision.

As an option, after all decisions are made but before results are revealed, ask students to predict what economics would say will happen, and what they themselves believe will happen in each game.

### Notes

This task goes through three simple experiments: Public Good (Activity 1), Dictator (Activity 2), Ultimatum (Activity 3). You can run one or all of these; complete with instructions and discussion, the entire set will take approximately one 45-minute class.

For public good, you should set your MPCR to a number that makes donating to the public good optimal for your class. In my class of 60 students I have an MPCR of 0.025, such that if everyone in the class donates their entire endowment of 5 tokens, they will get  $60 \times 5 \times 0.025 = 7.5$  tokens. This is larger than 5 tokens. You will want to explain the payouts first, before you proceed to the experiment, since generally the free riding possibility is not recognized by students in a one shot setting.

For dictator and ultimatum, you can either pre-match students in advance using ID numbers on yellow and pink cards, or match the sheets later. If you do pre-match in advance, you will want different matching for each of the games. The strategy method is used for the receiver in the ultimatum game, so that we can save time.

After the activities are over, the RA or you can add up responses while students watch a short clip about giving (we chose Freakonomics radio). Alternatively, have students engage in group discussion. Students should not participate in calculating

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<sup>1</sup> Anya C. Samak, "Pro-Social Preferences and Experiments Class Activity," Science of Philanthropy Initiative Resource, December 2012. SPIhub.org.

outcomes since they are told at the beginning that their choice will not be revealed to other students.

## Discussion

Discussion centers around the Nash equilibrium and Pareto optimal equilibrium of the public goods game, and discusses the Nash equilibrium of the dictator game versus a choice where the individual has pro-social preferences.

If you have been discussing “rational decision-making” to date in the class, you can now start talking about “getting utility from the act of giving” (warm glow) and “getting utility from increasing the utility of others” (pure altruism). Focusing then just on the latter point, you can display indifference curves containing bundles that have both my and my match’s payoffs. Further, you can show indifference curves that are relatively steeper or flatter to show differences in pro-social preference or relative caring about the other’s payoffs.

By introducing pro-social preferences into the indifference curve framework, you can rationally explain why someone would give to another person or a charity.

