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0521021480 - Bargaining and Market Behavior: Essays in Experimental Economics

Vernon L. Smith

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Bargaining and Market Behavior

This second Cambridge University Press collection of papers by Vernon L. Smith, a creator of the field of experimental economics, includes many of his primary authored and coauthored contributions on bargaining and market behavior written between 1990 and 1998. The essays explore the use of laboratory experiments to test propositions derived from economics and game theory. They also investigate the relationship between experimental economics and psychology, particularly the field of evolutionary psychology, using the latter to broaden the perspective in which experimental results are interpreted. The volume complements Professor Smith's earlier work by demonstrating the importance of institutional features of markets in understanding behavior and market performance. Specific themes investigated include rational choice, the notion of fairness, game theory and extensive form experimental interactions, institutions and market behavior, and the study of laboratory stock markets.

Vernon L. Smith is Regents' Professor, McClelland Professor, and Research Director of the Economic Science Laboratory at the University of Arizona. He received his doctorate from Harvard University and has also taught at Purdue and Brown Universities and the University of Massachusetts. Professor Smith is the author or coauthor of more than 200 professional papers and books on experimental economics, finance, capital theory, and natural resource economics, including *Papers in Experimental Economics* (Cambridge University Press, 1991). He serves or has served on the editorial boards of the *American Economic Review*, *The Cato Journal*, *Journal of Economic Behavior and Organization*, *Journal of Risk and Uncertainty*, *Science*, *Economic Theory*, *Economic Design*, *Games and Economic Behavior*, and *Journal of Economic Methodology*.

Professor Smith is past president of the Public Choice Society, the Economic Science Association, the Western Economic Association, and the Association for Private Enterprise Education. He is a Distinguished Fellow of the American Economic Association and a Fellow of the Econometric Society, the American Association for the Advancement of Science, and the American Academy of Arts and Sciences. Professor Smith has also been a Ford Foundation Fellow, a Fellow of the Center for Advanced Study in the Behavioral Sciences, and a Sherman Fairchild Distinguished Scholar at the California Institute of Technology. He holds an honorary doctorate from Purdue University.

Vernon Smith was elected a member of the National Academy of Sciences in 1995. He has served as a consultant on the privatization of electric power in Australia and New Zealand and has participated in numerous high-level public- and private-sector discussions of energy deregulation in the United States, including the National Electric Reliability Council in 1997.

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Essays in Experimental Economics

VERNON L. SMITH

University of Arizona



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Jonathan Roberts Tyson Hughes

A Memorial

On this occasion
we are privileged to celebrate
the memory of a wonderful life;
one that spanned sixty-four years;
one that touched and altered
dozens, likely hundreds, of other lives.

In his life John taught us how to live
– with energy, splendor, joy, and hope.
In his death he taught us how to die
– with stubborn resistance, candor, optimism, and inspiration.

I am awash with delightful memories,
but I will remember best and miss most
his unflagging personal support;
no one else could get as genuinely excited
about your work
as about his own.

He believed in his friends,
as he would have them believe in themselves.
He never allowed me not to believe in myself,
nor other friends not to believe in themselves.
He awakened the hidden strength within you.

When he wrote of the history he had learned
it was as if he had experienced it,
much as he spoke and wrote of the history he had truly lived:
down the white water rapids of Idaho's Bruneau River;
playing jazz clarinet in Ely, Wells, Elko, and Fish Haven;
the Great Strike of 1951 at Nushagak Station.

I first read the *Vital Few*,
and its masterful essay on Brigham Young,
in manuscript,
then entitled *The Good Land*.
I was astonished for it read like he had been there, lived it all.
That's when I knew how good writing is born of personal
– even if vicarious – experience,
that draws the reader into the phenomena, as it lived.

I was disheartened that the title was changed
to the colorless,
though accurate, *Vital Few*,

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thus eliminating John's ringing text from Exodus (3:8):

*And I come down to deliver them
out of the hand of the Egyptians,
and to bring them up out of that land
unto a good land and a large (land),
unto a land flowing with milk and honey.*

John loved the land, because he was of the land:
Idaho, Utah, Nevada, Washington, Indiana, Illinois, Vermont.
His heroes were most especially
of the Good Land
that flowed with the milk and honey
of nineteenth-century opportunity.

John catapulted himself into your life
– a fact that,
shall we say,
was not universally appreciated.
I welcomed and blossomed from this warm intrusion
for he was the brother I never had,
the confidant who nourished so very deeply, and meaningfully.

He came to Purdue for one reason:
he told me that he could no longer tolerate
his Federal Reserve Bank superior
blue-penciling all his work.
Such was his fierce Mormon independence.

After Purdue,
although there were sometimes long spaces
between our encounters,
somehow we managed always to pick up
where we had ended,
as if it had been but an hour, or a day.
With John there were no beginnings or endings;
just the flow of experience shared.

It was this continuity, this dependability, and reliability
in the face of unimportant interruption
that most significantly defined our relationship.
Others, I think, must have shared a similar experience,
because of who he was.
That continuity defined and gave sustenance
to an enduring thirty-six year bond between us.
I shall miss that bond dearly,
but without repining,
because of the strength he inspired.

His works,
his personal influence,

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will of course live,
as resistant to extinction as was his spirit to the end.
This is assured by those of us here, on this day,
and elsewhere,
who were touched so intimately by him,
for with John there were no beginnings or endings.

Now it is for each of us,
the living,
privately,
as well as through this congregation,
to find whatever meaning for our lives,
that is contained in his death.

He came
as dust
delivered of the good land;
he chose to return
as dust, for renewal,
unto a land made sweeter by his coming.

Vernon Smith
Tucson, Arizona
Delivered at Northwestern University
Alice Millar Chapel
October 25, 1992

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Preface

The first volume of my *Papers in Experimental Economics* (New York: Cambridge University Press, 1991) included most of my research papers in experimentation up to 1990. This second volume includes papers published largely from 1990 to 1998 plus some earlier pieces that can be conveniently classified under the headings of bargaining or markets. Almost all the papers herein have been coauthored with others. Even more than is indicated in *Papers in Experimental Economics*, experimentation has become an effort requiring many bases to be covered, and the research is most efficaciously conducted by teams of coequal scholars who each bring special skills and expertise to the bench. Some of the themes in this collection are continuations of works included in the earlier volume, in particular market institutions and experimental methodology. This is because my coauthors and I have found them to be viable long-term research programs. Other themes, involving bargaining, psychology, and reciprocity sparked our interest in the mid- to late 1980s and began to appear in this decade in published papers.

I believe that experimental economics, as an important methodology of inquiry cutting across all fields in economics is here to stay, although there remain pockets of resistance to this development. Such resistance is welcome for it has helped to invigorate, challenge, and strengthen experimentation. For me, the methodology is of value in proportion to its capacity to help us understand human behavior broadly in economic societies. Hence, we see the importance of linking behavior in the laboratory to field data from the modern economy, as well as economic history, archeological, biological, and ethnographic data from pre-history. Understanding is advanced only a little by isolated studies unconnected with broader knowledge of human social and economic development.

It is a pleasure to acknowledge, and express my appreciation for, the crucial contributions of my several coauthors, some of whom have participated with me for many years in many projects. I also recognize the contributions and invaluable support from Patricia Kiser, my long-time administrative assistant, who has grown with us all, learning and taking

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on increasing new responsibilities connected with managing the research records and funding that have made this volume possible.

Vernon L. Smith
Tucson, Arizona
July 1999