

Lessons for Market Design from Experimental Economics: New Horizons

Andrew Reeson
CSIRO

For more information please email:
andrew.reeson@csiro.au

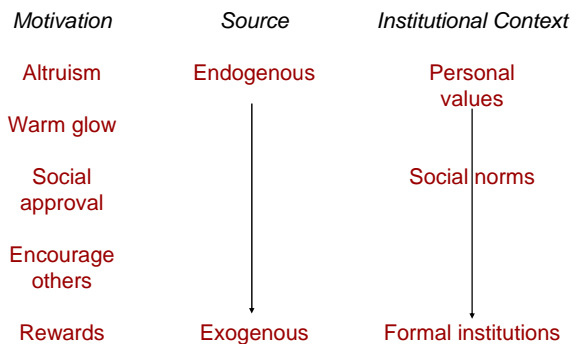
Roles of Experiments

- Help avoid potential policy pitfalls
Social and economic factors, eg crowding out
- Design smooth transition to MBI
Sequencing of instruments
- Facilitate education and engagement
Gain experience of MBI

Social & Economic Motivations

Why contribute?

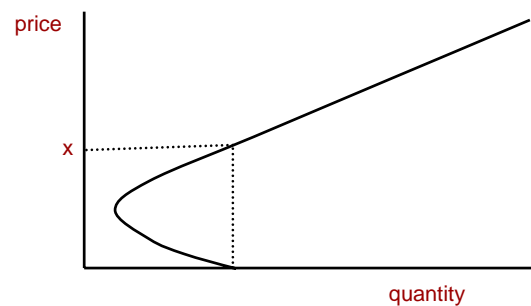
- Environmental/altruistic beliefs
- “Warm glow”
- Social approval
- Encourage others
- Sanctions/rewards



Policy Effects

- Often focus on extrinsic incentives
- May have indirect effects on other motivations
- Potential for extrinsic incentives to crowd out intrinsic motivations

Crowding Out

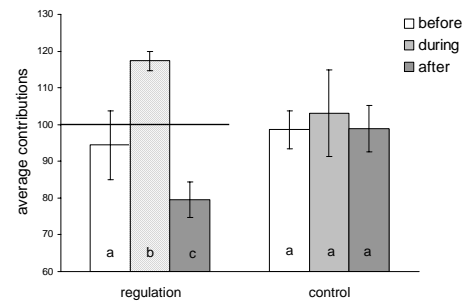


from Frey 2001

Experimental Evidence

- Laboratory 'public good dilemma'
- Brings out intrinsic motivations
- Real payments, real decisions
- Tested effects of regulation

Regulation



Experimental Evidence

- People who had previously been regulated contributed less than those who had not been regulated
- Suggests formal institution has changed motivations

Competitive Tender

- Crowding out can occur with MBI
- 'Market instinct'
- Volunteerism replaced by profit seeking
- Little increase in contributions
- Lasting effects

Implications of Crowding

- Strong intrinsic motivations + weak incentives can lead to crowding out
- Well designed institutions may be able to avoid this
- Understanding existing motivations useful for instrument selection
- Experimental testing can reduce risks

Sequencing

- Performance impacted by prior institutions
- Price discovery not always an ordered process
 - Bubbles and crashes occur, even in simple laboratory markets
 - Volatility will reduce efficiency, and may even wreck an MBI

Experimental Results

Anderson 2004

- Initial lease period smoothed transition to market
- Allowed price discovery to occur with minimum volatility

Stakeholder Engagement

- Market experience can improve trading performance
- Experiments can be used to expose stakeholders to a working market

Experimental Workshops

Rolfe & Windle

- Field test mechanisms
- Learning opportunity
- Evidence that bids become more efficient over repeated rounds

Conclusions

Experimental approach can:

- Integrate social & economic aspects
- Inform sequencing of instruments
- Provide a tool for increasing engagement with MBIs