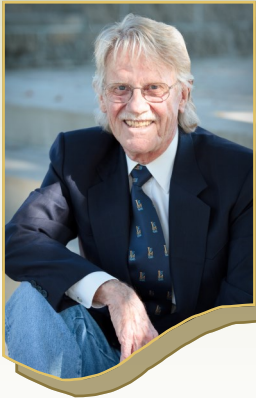


President's Corner By Vernon L. Smith



I am happy to introduce the two new members of the IFREE board of Directors: Diane Kaplan and Bart Madden. Diane and Bart are natural fits with the IFREE mission.

Since 2001, Diane has had a distinguished record serving as President of the Rasmuson Foundation in Anchorage, Alaska, one of the largest private foundations in the Pacific Northwest. I have had the good fortune to know Diane since I was the first Rasmuson Chair at the University of Alaska Anchorage (UAA) in 2003. Diane, long a dedicated philanthropy activist with a national presence, has been a staunch supporter of the program in experimental economics at UAA and experimental economics in general. We are truly privileged to have her join the IFREE Board. As Rasmuson Chair, I accompanied her on many trips to visit remote Alaska Native villages to learn about many of the culture-change issues unique to the Alaska Native experience. I worked with Diane and others in Alaska, and was able to assist in appealing to the U.S. Secretary of State to intervene in preventing a primitive salmon fishing camp site used for traditional recreational use to be taken over by the National Park Service. Diane brings a refreshing and experienced view to IFREE.

I have known Bart Madden since the mid-1980s when he was a member of the Board of Advisors of the Economic Science Laboratory at the University of Arizona. With a long standing interest in experimental economics and its application to understanding economic behavior and economics policy, Bart has a natural way of thinking about experiments and the experimental approach. His book, *Free to Choose Medicine*, is an innovative proposal that would define a separate Federal Drug Administration (FDA) testing and data base development track that that would kick in after successful completion of the FDA's Phase I (safety) trials and one or more Phase II trials. This track would enable drug developers to contract with patients (advised by their doctors) for access to not-yet-approved drugs. A particularly important population that would be served and further studied consists of terminal and debilitating cases beyond the reach of exist-

ing treatments. Without Bart's vision—supported originally by the Heartland Institute—the debate would not have been joined. Now we have legislative Free-to-Try initiatives in four states. These initiatives, I believe, show a change in attitude that Bart's effort has helped to nurture. New drug therapies often target highly specialized small-sample populations for which the gold standard large randomized trials testing apparatus simply does not and cannot apply. New dynamic forms of monitoring, testing and analyzing in ongoing experiments are needed, and Bart's proposal opens the way for such a future development.

The entire IFREE Board of Directors met for a first since 2007 face-to-face board meeting in April. We all enjoyed being hosted by Kevin McCabe and The Center for the Study of Neuroeconomics at GMU in Arlington, Virginia. I'd recommend to any of the readers to stop by and see what The Center is up to in research and state of the art experimental technology.

Best, Vernon



**Summer
Scholars
Program**
(see IFREE
Spotlight)



IFREE ANNOUNCES LATEST SMALL GRANTS AWARDS

“Auctions for Charity and For-Profit: A Field Experiment”

Joshua Foster, graduate student, Economics Department, University of Arkansas

This proposal addresses how best to raise money. This is the first field study comparing revenues and bidder behavior across charity and for-profit variants of four distinct auction formats. The study should advance understanding of bidder behavior and the motives underlying charitable giving, and should provide insights regarding the design and implementation of charitable auctions.

“Testing the Causal Influence of Testosterone on Rent-Seeking and Competition in Humans”

Colin Camerer, Division of the Humanities and Social Sciences, California Institute of Technology; Amos Nadler, Assistant Professor, Ivey Business, Western University, Ontario, Canada; Gideon Nave, PhD Student, Cal Tech.


Is there a causal effect of testosterone on behavior in rent seeking, risk taking and competition? The experimenters will administer testosterone or a placebo in a double blind protocol. The participants will then participate in rent seeking, competition and risk taking experiments. Will those with more testosterone be more competitive and risk taking?

“Rockets and Feathers in Gas Markets—The Experimental Approach”


Yaron Lahav, Assistant Professor, Ben-Gurion University of the Negev, Beer Sheva, Israel

The proposal examines the rockets and feathers phenomenon in experimental gas markets. Will prices fall more slowly than they rise following an exogenous shock? The study will examine the effects of introducing competition and information asymmetries between buyers and sellers. What are the factors affecting the speed of price responses in posted offer markets to changes in seller costs?


EXCITING UPDATES

 The **IFREE and ESI-sponsored high school workshop and Summer Scholars program** in June and July at Chapman University marked yet another successful round of hands-on learning and intellectual challenge. Special thanks to the Thomas W. Smith Foundation for making these programs happen (*see photo to right and the Summer Scholars photo on page 1*)!

High School Workshops

 The **IFREE Summer Scholar Program at the Center for the Study of Neuroeconomics at George Mason University** is moving right along supporting 2 undergraduate interns and 2 graduate fellows. In addition to preparing for the summer workshop, the IFREE Summer Scholars participate in a weekly journal club focusing on a specific theme. The theme for this summer is how trust generalizes to institutional exchange in larger social networks. And finally, the capstone for the IFREE Summer Scholar Program at CSN is the Workshop on Virtual World Experiments in Economics. Twenty eight applicants installed software on their home computers, created avatars in the Kitley virtual world and attempted to complete the basic orientation and project in order to secure a seat in the Workshop on Virtual World Experiments in Economics (*see virtual world photo on page 1*).



 **Vernon L. Smith lab in experimental economics was inaugurated at Nankai University.** Dr. Jim Murphy, IFREE Board member, and UAA Chancellor Tom Case were present at the signing ceremonies. Dr. Murphy has spent much of the summer in China working with Nankai University on a UAA partnership in the experimental lab and an MBA partnership.

Google translation of <http://news.nankai.edu.cn/nkyw/system/2014/06/18/000187494.shtml> is at:

<https://translate.google.com/translate?sl=zh-CN&tl=en&js=y&prev=t&hl=en&ie=UTF-8&u=http%3A%2F%2Fnews.nankai.edu.cn%2Fnkyw%2Fsystem%2F2014%2F06%2F18%2F000187494.shtml&edit-text=>



Why Have Property Rights Evolved to Be More Secure and Welfare-enhancing in Some Places and Times Than in Others?

An IFREE-supported small grant project, “An Experimental Inquiry into the Ecological Determinants of Property Rights,” explores the possibility that property right systems will evolve unique features as a function of the characteristics of the resources over which they are established. A series of experiments were designed to test the impact of various natural ecological features of resources on the rule-following behavior, and therefore security, of property right norms.

Author Erik Kimbrough writes: The experiment has subjects moving over a grid and seeking resources that are distributed in the “ground.” What is varied across experiment treatments is whether the resources are evenly distributed and whether they are renewable (like water or fisheries) or depletable (like mineral deposits) to determine whether such characteristics influence property norms. The theory, based on computer simulations, suggested that property will be most secure when resources are renewable and evenly distributed and least secure when resources are renewable but unevenly distributed. The experiments were designed to test these simulation predictions using motivated human subjects. The data collected so far have involved some 250 subjects.

We measure the “strength of property rights” in a number of ways. We measure strength of property as the cumulative average of the ratio, “actually stole”/ “could have stolen”. While the variability is high, it is clear that property rights are weakest in the Uneven/Renewable case and stronger when initial resources are evenly distributed.

Key Results: The results of the experiments largely confirm the predictions from the simulations. Property rights are sensitive to both the spatial distribution of resource productivity and resource renewability. We find that property right norms are more secure (i.e., resources are less likely to be contested) when resources are generally equally productive and renewable. On the other hand, when resources are renewable but some are more productive than others, there is extensive conflict over the high productivity resources.

Follow up experiments are intended to explore under what conditions subjects may be able to contract around these conflicts, to reduce waste and secure property.

By improving our knowledge of where property rights come from and why they sometimes change, the project contributes to our understanding of the foundations of economic exchange. By helping to explain the sources of success and failure in the creation of property rights, it in turn may provide guidance to development practitioners who seek to improve the lives of people around the world by encouraging the development of stronger property rights.

2nd Antigua Experimental Economics Workshop & Conference Extends Reach of Experimental Economics

by Diego Aycinena (Centro Vernon Smith de Economía Experimental)

To keep strengthening the ties within the Latin American experimental economics community and Latin America and the rest of the world, *Centro Vernon Smith de Economía Experimental* at *Universidad Francisco Marroquín* hosted the **2nd Antigua Experimental Economics Workshop & Conference** on February 18-22, 2014 at Casa Popenoe in Antigua, Guatemala. This important event was possible thanks to the generous support of IFREE.

The Experimental Economics Workshop was led by Pablo Brañas-Garza (Middlesex University), with the participation of Diego Aycinena and Lucas Rentschler (*Centro Vernon Smith de Economía Experimental*). Participants in the workshop were from, or working in, Latin America, all having different backgrounds and research experience. Participants came from the United States, Colombia, Ecuador, Brazil and Guatemala. The workshop included lectures on experimental design and experimental methods, in which participants used the insights gained to design an experiment in line with their own research interests. Participants worked in teams and with faculty to refine their designs prior to presenting them on the final day. In addition, there were several experiments sessions in which workshop participants reviewed the methodology and results, serving as a platform to evaluate their previous research projects.

The Experimental Economics Conference followed next. Experimentalists from or working in Latin America presented to over 20 participants from Spain, Sweden, Lithuania, Hungary, the United States, Mexico, Colombia, Ecuador, Brazil, Argentina and Guatemala. Presentations covered a wide variety of topics, including corruption, games, public good games, risk preferences, time preferences, social preferences, and field experiments. In addition, plenary talks were given by renowned experimental economists: Charles Plott (California Institute of Technology): *"The Design, Laboratory Testing, and Implementation of Large Constrained Auctions: The Victoria, Australia, Gaming Machine Auction"*, Juan Camilo Cárdenas (Universidad de los Andes): *"Searching for models that explain the commons without tragedies"* and Pablo Brañas-Garza (Middlesex University): *"Punishment in experimental games"*.

The overall result of the event was evaluated as GREAT! Workshop and conference participants were energized and encouraged and the excitement is spreading. Thanks to support from IFREE and *Facultad de Ciencias Económicas*, we can continue strengthening the ties between Latin American experimental researchers, moving from isolated researchers to an authentic research community.

View the video of the conference and workshop!
<http://newmedia.ufm.edu/gsm/index.php/Antiguaexperimentaleconomics2014>



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Build IFREE

IFREE's Mission Statement:

To advance the understanding of exchange systems and the testing and application of market-based institutions by:

- *funding* basic research in economics through experimental methods,
- *supporting* the scholarly development of students and pre- and post-doctoral visitors,
- *sponsoring* innovative hands-on participatory learning in experimental economics in a variety of settings, and
- *promoting* extended discussion of experimental economics research applications to policy.

At the heart of IFREE are the contributors who bring life to the IFREE mission through their financial support of projects funded by IFREE.

IFREE, founded in 1997, is a public 501(c)(3), tax-deductible charitable foundation. Contributions made to IFREE can be provided as general support or directed to a specific research or outreach program. To learn more about the work of IFREE please contact us!

Your Support Makes a Difference!

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