

Speaker: Oliver Kirchkamp (Department of Economics, University of Jena)

Social welfare versus inequality concerns in an incomplete contract experiment

Co-authors: Marco Faravelli (School of Economics and Finance, University of St. Andrews)
Helmut Rainer (Ifo Institute for Economic Research, University of Munich)

Abstract

We study a situation where two players first choose a sharing rule, then invest into a joint production process, and then split joint benefits. We investigate how social preferences determine investments. In our experiment we find that even the materially disadvantaged player cares more for social welfare than about inequality. Behavioral preferences of disadvantaged players actually increase inequality. We also investigate when players give up an advantageous sharing rule. Power-sharing can be successful in the experiment, even when it is not in a selfish world.