Summary

Traditionally economic theory is based on very narrow presumptions about human behavior. It is essentially assumed that people only care about their own monetary payoff, or, in other words, that people are selfish. However, in the last 20 years experimental research has accumulated overwhelming evidence that is at odds with this classical model of human behavior. It has been shown that people very often care about the distributional consequences of their actions as well as underlying motives and intentions. As a consequence the model of human behavior has been substantially widened. Models of distributional concerns as well as belief-dependent models of reciprocity, guilt aversion, regret and shame have been conceptualized. Against the background of the experimental findings and the associated new models of human behavior, the question arises whether the broadening of the behavioral presumptions impacts the conclusions drawn on the basis of our classical model. This question is the central point of my dissertation. More precisely, I study in four different papers the impact of these broader models of human behavior on decision making and human interactions.

In the first paper, 'Investments into education - Doing as the parents did' (with Georg Kirchsteiger), we study the impact of indirect reciprocity on the efficiency of private investments into human capital. The starting point of this project is empirical evidence suggesting that parents act indirectly reciprocal toward their children. Indirect reciprocity in this context means that parents that have received a lot (little) from their parents tend to give also a lot (little) to their children. More specifically, the paper focuses on parental investments into the education of their children, i.e. parents that have received a lot of education financed for by their parents do the same for their children and vice versa. This indirectly reciprocal behavior implies an intergenerational chain transmitting the attitude towards the formation of human capital from one generation to the next. In this paper we incorporate this 'chain' into an overlapping generations model with endogenous human capital formation and show that in absence of any state intervention such an economy might be characterized by multiple steady states. Interestingly, temporary public investments into human capital formation can move the economy from a steady state with low human capital levels to one with higher human capital levels. Nevertheless, even the best steady state that can be reached by temporary public investments is suboptimal when human capital is privately provided in the long run. This inefficiency can only be overcome by a permanent public subsidy for education. The analysis, hence, presents another good reason for government intervention to support optimal private investments into the education of children.

The second project, 'Procedural Concerns and Reciprocity', concentrates on another issue concerning the model of human behavior in economic theory. 'Procedural concern' is a well established concept in psychology. Sparked by experimental evidence, economists have only lately started to ask the question why people often behave very differently in outcome-wise identical situations depending on the ways, i.e. procedures, which have led to them. In this second project I present a framework which allows to account for procedural concerns in economic analyzes. More specifically, building on Martin Dufwenberg and Georg Kirchsteiger (2004)'s 'theory of sequential reciprocity', I show how procedural concerns can be conceptualized assuming that agents are (also) motivated by belief-dependent reciprocal preferences. Already during my work on 'Procedural Concerns and Reciprocity' I came
to the conviction that it actually represents only one step in a bigger theory. Reciprocity is only one type of motive through which procedural concerns can be rationalized.

In my job market paper, 'Procedural Concerns in Psychological Games', I generalize this idea to show that in the presence of all kinds of belief-dependent utilities (guilt, reciprocity, regret etc) procedural concerns arise. Hence, building on my second project, I generalize in this third project the results regarding procedural concerns to all kinds of belief-dependent motivations and demonstrate how the interaction of agents with belief-dependent psychological payoffs is influenced by procedural choices. More specifically, I use Martin Dufwenberg and Pierpaolo Battigalli (2007)’s framework of ‘dynamic psychological games’ and show that procedural concerns cannot only be conceptualized assuming reciprocal preferences, but inherently arise in the interaction of agents with all kinds of belief-dependent motivations. One of the main contributions, in my view, is the way that I define procedures and formalize ‘procedural games’ in which agents do not choose actions and strategies, as traditionally assumed in game theory, but procedures. I show that outcomes and procedures are inherently connected but nevertheless play distinct roles in the interaction of agents with belief-dependent utilities. In the context of the procedural games I clearly separate procedural choices from outcomes which allows to isolate the impact that procedural choices have on the strategic interaction of agents.

Lastly, in the paper ‘How (too much) self esteem facilitates contracts with subjective evaluations’ (with Markus Walzl) we analyze the impact of aggressive reactions to ego-threatening feedback on principal-agent relationships. More specifically, we show how peoples’ desire to protect their self-esteem can explain the existence of contractual relationships in environments with unobservable effort and subjective measures of performance. We concentrate on situations in which performance can only be measured subjectively as these constitute exactly the settings in which disagreements about effort and performance arise. This project is closely related to the recent works on self-esteem by Jean Tirole and Roland Bénabou (2002) and contracts with subjective performance signals by Bentley MacLeod (2003).

All in all, as said in the beginning, all papers analyze the implications of a broader model of human behavior in economic theory. It can be concluded that allowing for more complex human behavior in economic analyzes greatly impacts and alters conclusions that have been drawn on the basis of classical presumptions.

References