

SEMINAR

The Evolution of Institutional Rewards

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ABSTRACT:

Exogenously imposed endogenous peer reward mechanisms have been demonstrated as effective in promoting contributions in public goods games (Yang et al, 2018). In a laboratory experiment, we consider endogenizing the mechanism itself by allowing players to select their preferred tax rates on income in the public goods game. Players are sorted into groups based on their declared tax rate to play the public goods game with endogenous peer rewards with the minimum of a group's preferred tax rates implemented as the actual tax rate. After each public goods game, a reward stage allows group members to distribute votes among the other group members, which then determines the distribution of collected tax revenue. Whereas the standard public goods game displays the typical pattern of decaying contributions over rounds, the new mechanism with endogenous tax rate and peer reward displays an upward time trend in contributions across all groups. In addition, implemented tax rates increase over time across all groups, indicating that players successfully learn the benefit of higher tax rates in the endogenous peer reward setting. Contributions and reward vote-casting are both empirically monotonically increasing in the tax rate, and full contributions can be reached at the 40% tax threshold. Our study demonstrates the effectiveness of citizens' endogenous determination of fiscal redistribution in promoting pro-social behavior.

BIOGRAPHY:

Jie Zheng is Associate Professor in the Department of Economics and Executive Associate Director of the Tsinghua Economic Science and Policy Experimental Laboratory (ESPEL), School of Economics and Management, Tsinghua University. He is an Associate Editor for Journal of Economic Behavior and Organization and an Associate Editor for Research in Economics. He also serves as a Board Member in Society for the Advancement of Behavioral Economics (SABE), a Founding Scientific Committee Member in China Microeconomic Theory Forum, an Executive Board Member in China Information Economics Society, an Executive Board Member in American Committee on Asian Economic Studies, and a Founding Scientific Committee Member in Behavioral and Experimental Economics Forum (China BEEF).

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