
Lesson 2 – What Is the Difference Between Self-Interest and Greed?

The students make, accept and reject ultimatum offers to see how healthy self-interest promotes progress, while uncontrolled self-interest is greed that causes economic harm.

OVERVIEW

Economics

Economics assumes that people rationally seek their own interests. This assumption is the basis of many economic models, including the supply and demand model. In this model, demanders hope to pay a low price and suppliers try to get paid a high price. The result is a price that balances supply and demand. But do people rationally seek their own interests? And does this mean people are basically greedy? Do greedy people prosper in interactions with other people? This lesson explores these questions.

Ethics

Greedy, an excessive desire for more money or goods, is not a virtue. In contrast, prudence (reasonable self-interested behavior) is a virtue. Greedy can even be self-defeating: An excessive desire for more money and goods prevents a person from actually receiving more. How do people draw the line between rational self-interest and greed? A challenge for society is to recognize and channel legitimate self-interest while not encouraging greed.

LESSON DESCRIPTION

In this lesson the students first explore the concepts of greed and self-interest through a class discussion. In pairs they play a famous game in economics and ethics: the Ultimatum Game. One of the pair is a Proposer who suggests how to divide 10 rewards (for example, M&Ms, hard candies, extra-credit points) with a partner, the Responder. The Proposer may suggest keeping from 0 to 10 rewards but must recognize that the Responder may reject highly unequal proposals. If the Responder rejects a proposal, neither participant gets any rewards. The students play four rounds of the game, and then the class discusses the strategies the students employed and the implications of the game for self-interest, greed, altruistic behavior and fairness in business.

CONCEPTS

Fairness
Greed
Prudence
Rational behavior
Self-interest

CONTENT STANDARDS

1. Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.
3. Different methods can be used to allocate goods and services. People, acting individually or collectively through government, must choose which methods to use to allocate different kinds of goods and services.
4. People respond predictably to positive and negative incentives.

OBJECTIVES

The students will:

1. Explain how self-interest motivates economic behavior.
2. Explain how greed can make an individual less successful.
3. Explain the interaction of self-interest and fairness.
4. Contrast greed with legitimate self-interest.
5. Play the Ultimatum Game, which explores the concepts of greed and self-interest.

TIME REQUIRED

45 minutes

MATERIALS

1. Visuals 2.1, 2.2 and 2.3
(**Note:** Visual 2.2 and Activity 2.1 are the same.)
2. Enough rewards such as M&Ms or hard candies to give each student 20 pieces if the class plays four rounds of the game.
(**Note:** If your school does not allow candy in the classroom or if your budget does not allow for candy, students can play for extra-credit points or some other reward.)
3. One copy of Activity 2.1 for each student

PROCEDURE

1. Explain that the class will explore the difference between self-interest and greed. Ask the students, “What is greed?” **Accept a variety of answers. The fundamental point is that self-interest turns into greed when it is taken “too far” or “to excess.” Some students may say that someone’s self-interest becomes greed when it hurts others. Others may say that “when I want more, it is self-interest; and when you want more, it is greed.”**
2. Display Visual 2.1. Point out that in economics, we often assume that people rationally seek their own interests, but that greed — an excessive desire for more money or goods — is not a virtue.
3. Tell the students that self-interest can produce good outcomes, and then ask, “Why do you expect to receive food when you go to a fast-food restaurant?” **Some students will simply say, “Because you will give them money.” Push them to express the self-interest of the restaurant owner, who is in business to make money, or of the employees, whose self-interest led them to work at the restaurant.**
4. Tell the students that the Classical economist Adam Smith made the same point when he wrote (quoted on Visual 2.1): “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” Ask: “How might Adam Smith express this point if he were writing today, using modern sellers as examples?” **Smith might say it’s not from the benevolence of the gas station owner, the fast-food restaurant manager or the music store clerk that we expect gasoline, food or CDs. Instead it’s from their self-interest. They help themselves by learning to serve others.**
5. Distribute one copy of Activity 2.1 to each student, and display Visual 2.2. Using the Visual, tell the students they will play a total of four rounds of the Ultimatum Game. Be sure to tell the students what the rewards will be. Half the class will start the game as Proposers and half as Responders. They will play two rounds, with a new partner for each round. After the second round, they will switch roles: Each Responder becomes a Proposer, and

each Proposer becomes a Responder. The students will play two more rounds — again, with a new partner for each round. Each student will keep a separate score sheet and add up the results after Round 4. Tell the students that they will be disqualified and earn no rewards (candy or extra-credit points) if they start before you say “Go.” All rewards will be distributed at the conclusion of the lesson.

6. Now divide the class in half. The group on the left will be Proposers in Round 1, and the group on the right will be Responders. Tell the Proposers that when the game begins, they will pair with a Responder partner (discourage them from selecting a close friend). Remind them that they will find a new partner for each round, and that they will switch roles after the second round. Tell the students when to start the game by saying “Go,” and then monitor their game-playing to make sure they are following the rules.
7. At the end of the game, ask the students to add up the number of rewards (candies or extra-credit points) they should get and write the total on their score sheet. Remind the students that you will distribute the rewards at the end of the lesson.
8. Ask these questions to debrief the game:
 - A. Did anyone propose a five-and-five division of rewards? Why? *Yes, this is typically the most common proposal; most students will say that five-and-five is a fair proposal. Given the ethic of equal sharing promoted by family life and previous experience in school, the five-and-five proposal is a natural starting point. Some of the students may stay with five-and-five throughout the game.*
 - B. Did any Responder reject an offer? Ask Responders why they rejected the offer. *Typically, someone will make a proposal that the Responder rejects. The Responder will justify rejecting the offer, saying it was not fair.*

C. If you’re a Responder and you turn down a proposal of one reward for you and nine for the Proposer, what do you lose? *One reward* What do you gain? *You don’t get any rewards, but you have the possible satisfaction of denying nine rewards to an unfair person.*

D. Why don’t Proposers who suggest one candy for the Responder and nine for the Proposer get the most rewards? *The Responders often reject this offer and the Proposer gets nothing. If self-interest becomes greed, as defined by the Responder, the Responder may punish the greedy offer.*

E. If a one-and-nine division is unfair, is a four-and-six division also unfair? *Accept a variety of answers.*

F. What is the best strategy for a Proposer who wants the most rewards? *Generally, you will earn more rewards by proposing a division that others consider to be within the bounds of fairness.*

G. How would the results be different if the players did not know each other and would never meet again? *Accept a variety of answers. Some students who offered five-and-five to their friends might have proposed a more unequal division to a stranger. Even among strangers, however, general ideas of fairness will likely keep Responders from accepting the most unequal allocations, such as one-and-nine.*

H. What are the limitations of the Ultimatum Game in explaining the difference between self-interest and greed? *The Ultimatum Game is a zero-sum game: If one person gets a piece of candy, the other person does not. There are also negative-sum games and positive-sum games. A person who finds a wallet, takes a few bucks and throws the wallet away may not seem greedy, but most people would find the behavior unacceptable because it is a negative-sum game. On the other hand, a person may receive a billion dollars in profit for discovering a drug that will*

save millions of lives. This is a positive-sum game. Would your students call this greed? Most market transactions are positive-sum games.

CLOSURE

9. Display Visual 2.3. Tell the students that the Ultimatum Game is often played using computers so that neither the Proposer nor the Responder knows whom they are playing with. In this controlled setting, friendship does not influence behavior. Even so, in divisions of \$10, the average amount Proposers offer is often about \$2.50. Responders will typically reject offers lower than this. Since a rejected offer means no rewards, strict economic logic would say that Responders should accept any offer, even \$1. Responders reject such offers because ethical considerations are also important: Humans care about justice in addition to wealth. Hence, ethical considerations can affect economic outcomes.
10. Review the main points of the lesson by asking the following questions:
 - A. What is the difference between greed and self-interest? *Greed is self-interest that has gone too far according to social norms.*
 - B. In a market system, do you count on people to provide what you want only because they like helping others? *No, we expect sellers to provide goods and services because it is in their interests. They may also like to help others, but we do not count on this as their primary motivation.*
 - C. What does the Ultimatum Game teach you about greed? *Self-interest pushed too far actually works against your own interests. People care about fairness.*
11. Distribute the rewards to the students based on the totals earned in the record sheets.

The bottom line: Self-interest may lead people to make aggressive offers in the marketplace, but greed can lead to getting nothing. In the Ultimatum Game and in life, people dislike unfairness and will incur costs to punish it.

ASSESSMENT

Multiple-Choice Questions

- 2.1 A game people use frequently for economic and psychological investigation is called the Ultimatum Game because the game
 - A. shows how sellers operate when their product is the best in the market.
 - B. is the ultimate in simplicity — that is, the simplest possible two-step game.
 - C. *involves a take-it-or-leave-it offer from one person to another.*
 - D. shows how disregarding the feelings of others generates profits.
- 2.2 The difference between rational self-interest and greed is that greed
 - A. *is excessive, while rational self-interest is a legitimate motivation for people.*
 - B. involves money but rational self-interest does not.
 - C. exists only in a market system.
 - D. concerns only consumers, while rational self-interest concerns consumers and producers.
- 2.3 Carol buys stock in a new technology company. The company grows, hires more employees and increases profits. Carol sells her stock for much more than she paid for it. This is an example of a
 - A. zero-sum game.
 - B. negative-sum game.
 - C. *positive-sum game.*
 - D. ultimatum game.

Essay Questions

- 2.1 One winter the weather is unusually cold, and a fuel-oil dealer finds that customers are ordering much more heating oil. If the dealer raises prices in response, is this an example of rational self-interest or greed?

Support your answer. *Some students will characterize raising prices as rational self-interest. Give full credit to an answer that adequately explains this choice; justifications can include the dealer's right to raise prices because the dealer took on the risk of being unable to sell the oil in a mild winter or the mutual rights of the dealer to raise prices and the consumers to shop elsewhere.*

Give full credit also to a well-supported answer that characterizes the response as greed. Such answers could include the dealer's duty not to take advantage of people who face colder weather through no fault of their own or could focus on the dealer's interests in keeping customers over the long run — sacrificed here to the desire for short-run profit.

The situation is more complicated for the students who understand basic economic principles. The opportunity cost of selling fuel oil to one customer is the amount another customer is willing to pay for it. This reflects an ethical feature of market pricing. Market prices motivate us to consider the concerns of others by making us pay an amount for another unit of a product, such as fuel oil, that equals the marginal value others place on it.

When others get greater value from a product, they communicate this by being willing to pay higher prices for it. This motivates buyers of the now more-valuable product to use less of it. This process results in sharing the product with others.

If the market did not ration fuel oil, the government would have to ration it based on factors other than price. Would this be more or less fair than the market solution? A student who discusses this issue should receive an "A" in economics.

- 2.2 When driving on the freeway, Carl blows his horn repeatedly, tailgates cars and

cuts in front of them if he can. Carl explains, "Other drivers are in my way, and I operate the way I do to get to my destination sooner." What benefits does Carl receive from driving in this manner? What costs does he incur? Is Carl showing rational self-interest or greed? Does Carl's strategy always work? *Carl's benefits may include his getting to his destination faster. He incurs costs in the form of a higher probability of causing an accident and being injured, getting a ticket for bad driving, higher insurance costs and the likelihood that other drivers will retaliate against him in "road rage" incidents. Hence, Carl's greedy strategy may backfire. Rational self-interest could lead Carl to control his selfish nature.*

GOING FURTHER

Ultimatum Game: "The Ultimatum Game" by Richard Thaler (*Journal of Economic Perspectives* 2, no. 4, 1988: 195-206) is a useful review article about the game and many experiments that use it.

Why Do People Value Fairness? The Ultimatum Game illustrates that people value fairness. Some advanced classes may benefit from going beyond this fact to an extended discussion or an essay assignment on the question, "Why do people value fairness?" A useful resource for this exercise is Vernon Smith, "Human Nature: An Economic Perspective," *Daedalus* 133, no. 4 (Fall 2004): 67-76. Student perspectives will vary. Some, following a tradition that goes at least as far back as Adam Smith, will say that fairness is "wired" into human nature. In his *Theory of Moral Sentiments* (Indianapolis: Liberty Fund, 1976, 225), Adam Smith wrote, "Kindness is the parent of kindness; and if to be beloved by our brethren be the great object of our ambition, the surest way of obtaining it is, by our conduct, to show that we really love them." Other perspectives are social or evolutionary, stressing the advantages to society or the survival advantages of fairness.

Negative Outcomes of Greed: The idea that greed can backfire to produce negative outcomes is dramatically portrayed in the movie *Wall Street* (1987). In a famous speech, the unethical financier Gekko (played by Michael Douglas) summarizes by saying, “The point, ladies and gentleman, is that greed — for lack of a better word — is good.” While the film cannot be shown in many classrooms because of its R rating, Gekko’s memorable speech is available online at <http://www.americanrhetoric.com/MovieSpeeches/moviespeechwallstreet.html>. The speech has become a classic in business communications studies, including one article that provides useful hints on student PowerPoint presentations: Gary H. Jones, “Message First: Using Films to Power the Point,” *Business Communication Quarterly* 67, no. 1: 88-91.

The Cost of Greed: For further reading, see Sam Pizzigati, *Greed and Good: Understanding and Overcoming the Inequality that Limits Our Lives* (New York: The Apex Press, 2004). This strongly written book carefully examines but rejects “the case for greed” before documenting “the cost of greed.” The author concludes by making the case for a “10 times” rule: confiscatory taxation on people who receive more than 10 times a minimum-wage level of income.

Business and Profits: See Milton Friedman, “The Social Responsibility of Business Is to Increase its Profits,” *The New York Times Magazine*, September 13, 1970. This classic argument for self-interested behavior by corporations does not say that “greed is good” but rather that corporations most effectively serve social responsibility if they seek to “make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.” An abbreviated version of Friedman’s article is found in Lesson 9 of this book.

Motivation: The John Stossel television program *Greed* (ABC/Disney) has several examples of how self-interest motivates people to serve the interests of others. Each example provides the opportunity for classroom discussion. *Greed* is available from <http://www.economicthinking.org/Stossel/index.htm>

VISUAL 2.1

SELF-INTEREST VS. GREED

In economics, we often assume that people rationally seek their own interests.

But greed, an excessive desire for more money or goods, is not a virtue.

Self-interest can produce good outcomes.



Why do you expect to receive food when you go to a fast-food restaurant?

Writing more than 200 years ago, Adam Smith answered a similar question in the terms of his own time:

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” (Adam Smith, *The Wealth of Nations*, eds. R.H. Campbell and A.S. Skinner, Indianapolis: Liberty Press, 1981 [1776], 26-27)

How might Adam Smith express this point if he were writing today, using modern sellers as examples?

VISUAL 2.2

THE ULTIMATUM GAME: DIRECTIONS

You are about to play a famous game called the Ultimatum Game. In this game players negotiate the division of 10 rewards items. The teacher will define the specific rewards to be allocated. Read these rules, but don't begin to play until your teacher says "Go."

1. You play this game in pairs; one player is the Proposer and the other is the Responder.
2. If you are the Proposer, your job is to propose an allocation, or division, of 10 rewards items between yourself and a Responder. You may not use fractional amounts, so you must propose a whole number between 0 and 10 rewards for yourself, with the remainder of the 10 rewards going to the Responder.
3. If you are the Responder, your job is to accept or reject the Proposer's proposal. If you accept the proposal, both of you will get the proposed number of rewards at the end of the lesson. If you reject the offer, neither of you will get anything for this round.
4. Proposers will randomly pick Responders for each round (try not to pick your close friends). Players must switch partners after each round. Do not repeat partners.
5. Half the class will start the game as Proposers and half as Responders. You will play two rounds, with a new partner for each round. After the second round, you will switch roles: Each Responder becomes a Proposer, and each Proposer becomes a Responder. You will play two more rounds — again, with a new partner for each round.
6. Record your results after each round on the score sheet below. At the end of the game, calculate the total rewards you earned.
7. All rewards will be distributed at the end of the lesson.

VISUAL 2.2 (continued)
 THE ULTIMATUM GAME: DIRECTIONS

	Proposed division of 10 rewards			(P)	(R)
Round	Number of rewards for Proposer	Number of rewards for Responder	Responder's action	Number of rewards Proposer gets	Number of rewards Responder gets
1			<input type="checkbox"/> Accept <input type="checkbox"/> Reject		
2			<input type="checkbox"/> Accept <input type="checkbox"/> Reject		

Now switch roles, with Responders becoming Proposers and Proposers becoming Responders.

	Proposed division of 10 rewards			(P)	(R)
Round	Number of rewards for Proposer	Number of rewards for Responder	Responder's action	Number of rewards Proposer gets	Number of rewards Responder gets
3			<input type="checkbox"/> Accept <input type="checkbox"/> Reject		
4			<input type="checkbox"/> Accept <input type="checkbox"/> Reject		

1. In the column marked (P), circle the number of rewards you earned as a Proposer.

The total number of rewards I get as a Proposer is _____.

2. In the column marked (R), circle the number of rewards you earned as a Responder.

The total number of rewards I get as a Responder is _____.

3. Add up the total rewards you earned as both a Proposer and Responder.

The total number of rewards I get is _____.

VISUAL 2.3

THE ULTIMATUM GAME: RESULTS

The Ultimatum Game is often played in a controlled setting using computers so that neither the Proposer nor the Responder knows whom they are playing with. In this controlled setting, friendship or calculation of future interaction does not influence behavior.

- In games played multiple times, the average amount offered in a division of \$10 is about \$2.50.
- By contrast, strict economic logic would say that Proposers should make offers approaching zero and Responders should accept any offer, even one as low as \$1.

Questions

1. If you saw \$1 lying on the parking lot, would you bend down to pick it up?
2. If so, why wouldn't Responders accept an offer of \$1 in an Ultimatum Game?
3. How do ethical concerns alter the strict economic logic?

For further details, see Richard Thaler, "The Ultimatum Game," *Journal of Economic Perspectives* 2, no. 4 (1988): 195-206.

ACTIVITY 2.1

THE ULTIMATUM GAME: DIRECTIONS

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1. You play this game in pairs; one player is the Proposer and the other is the Responder.
2. If you are the Proposer, your job is to propose an allocation, or division, of 10 rewards items between yourself and a Responder. You may not use fractional amounts, so you must propose a whole number between 0 and 10 rewards for yourself, with the remainder of the 10 rewards going to the Responder.
3. If you are the Responder, your job is to accept or reject the Proposer's proposal. If you accept the proposal, both of you will get the proposed number of rewards at the end of the lesson. If you reject the offer, neither of you will get anything for this round.
4. Proposers will randomly pick Responders for each round (try not to pick your close friends). Players must switch partners after each round. Do not repeat partners.
5. Half the class will start the game as Proposers and half as Responders. You will play two rounds, with a new partner for each round. After the second round, you will switch roles: Each Responder becomes a Proposer, and each Proposer becomes a Responder. You will play two more rounds — again, with a new partner for each round.
6. Record your results after each round on the score sheet below. At the end of the game, calculate the total rewards you earned.
7. All rewards will be distributed at the end of the lesson.

ACTIVITY 2.1 (continued)
THE ULTIMATUM GAME: DIRECTIONS

	Proposed division of 10 rewards			(P)	(R)
Round	Number of rewards for Proposer	Number of rewards for Responder	Responder's action	Number of rewards Proposer gets	Number of rewards Responder gets
1			<input type="checkbox"/> Accept <input type="checkbox"/> Reject		
2			<input type="checkbox"/> Accept <input type="checkbox"/> Reject		

Now switch roles, with Responders becoming Proposers and Proposers becoming Responders.

	Proposed division of 10 rewards			(P)	(R)
Round	Number of rewards for Proposer	Number of rewards for Responder	Responder's action	Number of rewards Proposer gets	Number of rewards Responder gets
3			<input type="checkbox"/> Accept <input type="checkbox"/> Reject		
4			<input type="checkbox"/> Accept <input type="checkbox"/> Reject		

1. In the column marked (P), circle the number of rewards you earned as a Proposer.

The total number of rewards I get as a Proposer is _____.

2. In the column marked (R), circle the number of rewards you earned as a Responder.

The total number of rewards I get as a Responder is _____.

3. Add up the total rewards you earned as both a Proposer and Responder.

The total number of rewards I get is _____.