

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.