

Dissertation Abstract:

Essays on Behavioral Economics

My dissertation consists of three major essays on behavioral economics. The first two investigate how important the role of a boss is to solve the collective action problem in team production. In order to do that, different methodologies are employed: one essay is a theoretical model of team production when workers suffer from inequality aversion. The second is an experimental study on team production that compares the levels of contribution to a group project when workers face different types of bosses. And the third and last essay does a critical interpretation of John Maynard Keynes's psychological insights by comparing them with the recent evidence collected in the fields of behavioral and experimental economics. A brief description of each essay is as follows:

Team Production, Residual Claimancy, and Inequality Aversion

This essay develops a model in which workers have social preferences in the form of inequality aversion towards the boss. The workers face a "rent extractor" boss who selects in advance the fraction of total output that she wants to receive from them. It finds that the presence of this unproductive boss solves the free-rider problem in team production if: 1. workers take into account their subjective costs of effort when assessing inequality; and 2. workers are sufficiently averse towards positive inequality. It shows that under these conditions the boss will have a preference for being very generous; then, workers provide a high level of effort to offset their material advantage until welfare is at the same level as the boss' profits.

The Role of the Boss in Team Production: An Experimental Investigation

This essay reports the results of a laboratory experiment that analyzed the role of a boss under a team production environment through the use of the Voluntary Contribution Mechanism. The boss had to select in advance the fraction of total contributions she wanted to receive from workers. After observing this decision, subjects in the role of workers had to decide how much to contribute to a group project. The experiment analyzed treatments with an unproductive boss, a productive boss, and no boss. In addition, it also investigated how the possibility of punishment by either a boss or a co-worker affects overall contributions. The main findings are: 1. The endogenous creation of heterogeneous marginal benefits when a productive boss is present generates the highest levels of contribution when punishment is not allowed; 2. The collective action problem is solved completely with contributions when a productive boss divides output equally; 3. When an unproductive boss is very generous, workers reciprocate by contributing the same or more to the group project than when the boss is absent, even though workers receive a lower marginal benefit with the presence of the boss. This effect is stronger when the boss depends less on the

output of workers; 4. Workers are more likely to increase contributions when they have been punished by a productive boss rather than by an unproductive boss or a co-worker; and 5. "Partial Mutual Monitoring" also solves the collective action problem in small groups.

The Behavioral Economics of Keynes

This essay evaluates some of the economic theories developed by Keynes in the light of recent research in behavioral and experimental economics. It seeks in Keynes's own works the hints and suggestions about what a realistic approach to behavior under uncertainty might be. It claims that Keynes was deeply conscious about the necessity to incorporate realistic behavioral assumptions in macroeconomic models that deal with judgment under uncertainty. It is found that his research program is broadly compatible with and finds support in most of the latest findings of behavioral and experimental economics, even though his inferences were largely based on "subjective impressions" rather than rigorous scientific studies; many of the ideas set forth by Keynes in his economic works, especially in the *The General Theory*, have a defensible behavioral foundation, and fit broadly the actual behavior of economic agents in the real world. As a consequence, the essay argues that any economic theory claiming to follow Keynes's thought can benefit from this interaction.