Do People Confuse Average and Marginal Tax Rates? Evidence from a Field Experiment

Paper Abstract: The purpose of this experiment is to see if people react to labor market schedules in a manner that suggests confusion between average and marginal tax rates. We present individuals with identical payment schedules for data entry of a series of paragraphs.

We find that the workers who saw the average payment schedule do significantly more paragraphs than the workers who saw the marginal payment schedule. When workers are not primed with per paragraph payments, they enter significantly more paragraphs than when they are shown either average or marginal payment schedules.

Table 2: The Effect of Showing Marginal or Average Payment Rates on the Number of Paragraphs Completed

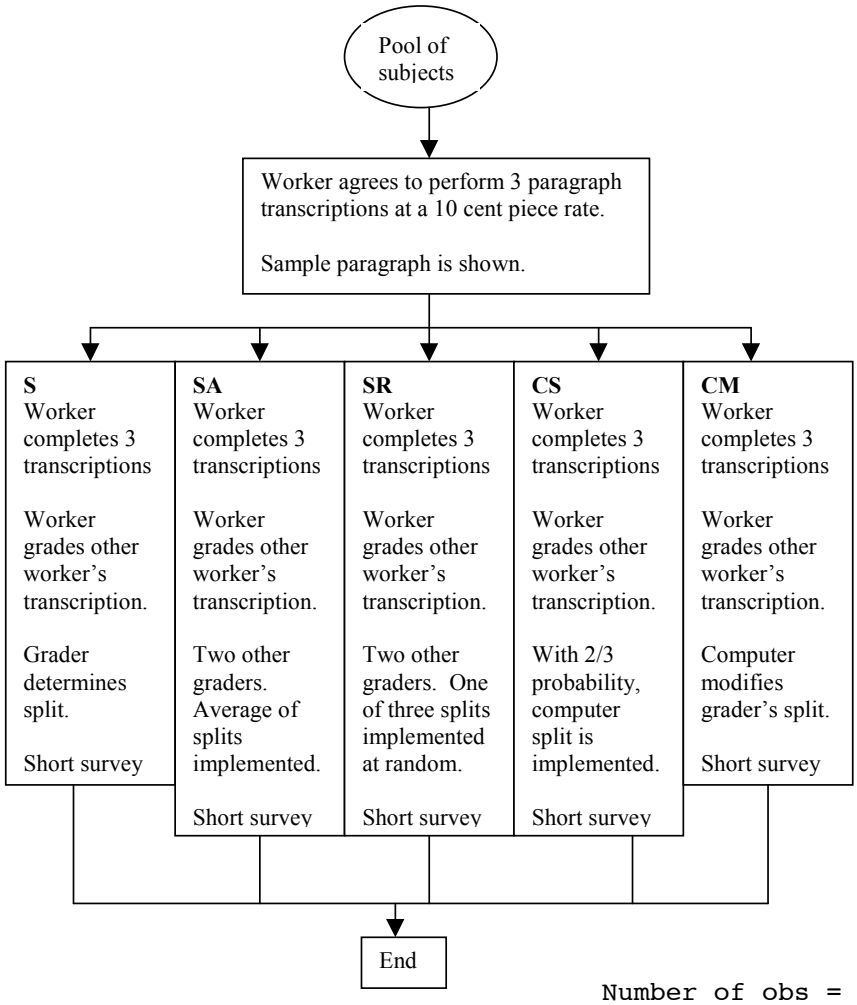
	Conditional on Completing At Least 1 Paragraph			
	Number of Paragraphs		Log Number of Paragraphs	
	(1)	(2)	(3)	(4)
Marginal (Treatment Indicator)	-3.583*	-3.480*	-0.762**	-0.733*
	(1.822)	(1.935)	(0.376)	(0.410)
Age		0.119		0.0110
		(0.0817)		(0.0173)
Education		-0.0673		0.0149
		(0.294)		(0.0623)
Male		-1.861		0.0563
		(1.946)		(0.412)
Arrival		-0.917		-0.153
		(0.873)		(0.185)
Hours		0.0799		0.0107
		(0.0579)		(0.0123)
Risk_p		0.337		0.0827
		(0.443)		(0.0939)
Constant	11.31***	8.255	5.256***	4.401***
	(1.297)	(5.980)	(0.268)	(1.266)
N	79	76	79	76
R-sq	0.048	0.146	0.051	0.097

Notes: Standard errors in parentheses (* p<0.10 ** p<0.05 *** p<0.01). Log number of paragraphs is computed as ln(number of paragraphs). Demographic controls are age, education (in years), gender, arrival time, hours spent online per week, and risk preferences.

Egoism vs. Altruism: Does Intermediation Reduce Altruism?

Paper Abstract: We examine whether individuals become less moral when they know their choices are obfuscated under randomization. We ask individuals enter data, grade another individual's work, and decide to split a bonus. Graders who are told the split might implemented or modified by a new procurement algorithm are less generous than graders who are told their split might be averaged or randomly selected among other graders. This is consistent with the Beckerian view of egoist motivations for altruism.

Figure 1: Experimental Design

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Linear regression                               Number of obs =     181
                                                F(  3,   177) =    3.28
                                                Prob > F      =  0.0224
                                                R-squared     =  0.0407
                                                Root MSE      =  8.7587

------------------------------------------------------------------------------
             |               Robust
       split |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
    computer |  -2.040704   1.259021    -1.62   0.107    -4.525327    .4439203
      gender |   1.871164      1.377     1.36   0.176     -.846287    4.588615
         age |   .1138398   .0527529     2.16   0.032     .0097342    .2179454
       _cons |    15.8302   3.277894     4.83   0.000     9.361421    22.29899
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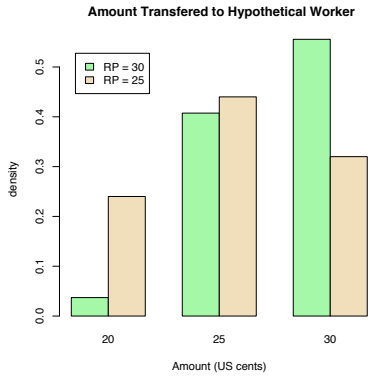
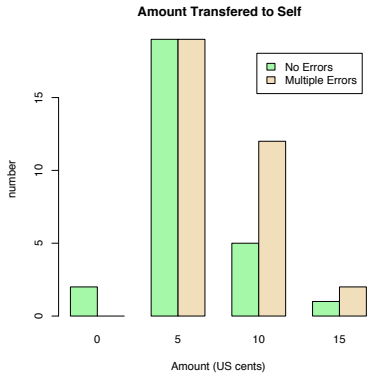
Tastes for Desert and Placation: A Reference Point-Dependent Model of Social Preferences

Paper Abstract: We propose a reference-point dependent model of social behavior where individuals maximize a three-term utility function: a consumption utility term and two "social" terms. One social term captures a preference for desert (others getting what we think they deserve) and the other term a preference for the satisfaction of other's expectations, or to placate them (i.e. them getting what we think they think they deserve).

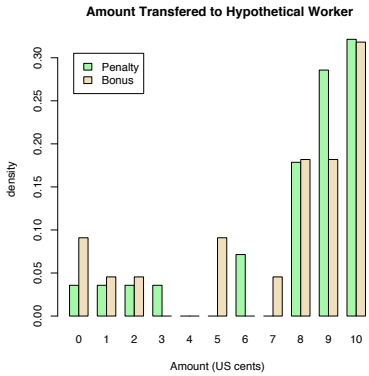
We test the model in a contextualized field setting by asking subjects to grade data entry and propose a split of a bonus. We manipulate desert reference points by framing mistake frequency. Individuals transfer more when they do not know the number of mistakes or are told how many subjects make at least one mistake than when individuals are told how many make two or three mistakes respectively, suggesting that individuals transfer more when subjects are viewed as more deserving. We manipulate placation reference points revealing information on how much the offeree might expect. When individuals are not told any information about the offeree's knowledge or when they are told the offeree knows about the potential bonus, there is no difference in the bonus split. When individuals are told the offeree is not told about the bonus, then offers drop precipitously.



(a) Transfers Increasing in x_r^{RP}



(b) Transfers Increasing in x_p^{RP}



(c) Lack of Penalty vs. Bonus Frame

Figure 1: Panel 1(a) shows the results of an experiment in which subjects inspected a transcription by a hypothetical worker and then assigned a bonus or penalty. In the RP=25 group, subjects were told the worker was paid a base rate of 25, which they could modify with a bonus of 5 cents or a penalty of 5 cents. In the RP=30 group, subjects were told the worker was paid a base rate of 30, which they could modify with a penalty of 5 cents or a penalty of 10 cents. Panel 1(b) shows the results on an experiment testing whether subjects would award themselves more money and a hypothetical worker less money if they perceived the other worker as having made more errors. Subjects were randomly assigned to the "No Errors" group or the "Multiple Errors" (3 obvious spelling mistakes) group. In both groups, subjects were asked to examine a transcription prepared by a fellow worker and marked check-boxes indicating whether a given line contained an error. After this task, subjects were asked to split a 15 cent bonus between themselves and the other worker, with the allowable distributions being a self-award of 0, 5, 10 or 15 cents. Panel 1(c) shows the results of an auxiliary experiment designed to test whether subjects perceive of penalties and bonuses independent of the effects those actions have. In the experiment, subjects were randomized to a treatment (N=22) and control (N=28) groups: in the treatment group, subjects were asked to award a bonus from $[0, 10]$, while in the control, subjects were asked to assess a penalty from $[0, 10]$.

What kinds of contractual mechanisms prevent the hold-up problems that would otherwise cause the market to unravel?

4 Perfect Knowledge

4.1 Fixed-Price

With a fixed-price contract and with $v > y$, then if $q = 1$, the buyer always accepts. The seller's problem is then:

$$\max_e \quad Pr(a = 1)(y - e) + Pr(a = 0)(-e)$$

or

$$\max_e \quad (y - e)(F(e)p - p + 1) - ep(1 - F(e))$$

The first-order condition is $pyF'(e) - 1 = 0$, or

$$F'(e) = \frac{1}{py}$$

Setting p From the social planner's perspective, the optimal p causes the seller to choose the optimal level of effort. Total effort costs are e and total benefits are $F(e)v$, so the optimal effort e^{**} satisfies

$$1 = F'(e)v$$

which implies that

$$p = \frac{v}{y}$$

but since $v > y$, $p = 1$ and therefore

$$F'(e) = \frac{1}{y}$$

Define e^*_{FP} as the optimal effort level of the seller under a fixed-price contract.