

Group Activity: Ultimatum Game Teacher's Guide

Under what circumstances do people not behave like rational “Econs”?

Students will participate in a version of the classic behavioral economics experiment entitled the Ultimatum Game. The class will be divided in halves, with one half being the Proposers and the other half being the Responders. Each Proposer will be given the choice of how to split a reward of 10 items with the Responder. This reward can be 10 extra credit points, 10 pieces of candy, 10 stickers, or some other small reward that can be easily divided and has some value to the students. The Proposer remains anonymous to the Responder to prevent any influences on the decisions made, such as friendship or fear of retaliation. The Proposer will put forth an offer, and it is up to the Responder to accept or reject that offer. If the offer is accepted, both the Proposer and the Responder get the agreed upon amount as presented in the offer. If the Responder rejects the offer, neither the Responder nor the Proposer receives any reward; in other words, no one gets anything. Students will play two rounds of this game.

The discussion of the results includes comparisons between the thought and decision-making process of “Econs” and “Humans.” The rational decision-making of an Econ is contrasted with that of the fairness-minded Human. Students will also learn and discuss the results of an experiment in which other emotions matter, such as the meaningfulness of the work that one does, how it can affect productivity, and the amount workers would demand in payment for their work.

The Ultimatum Game is a behavioral economics experiment that has many different variations, having been tested on subjects from different cultures, different levels of socioeconomic status, and different age groups. Each variant of this experiment focuses on the issue of fairness. What allocations of goods, rewards, or wages are perceived as fair or unfair? How do individuals respond when they are treated unfairly? It shows that emotions associated with being treated fairly or unfairly can influence the choices people make.

Other emotions can also impact our decisions, such as sadness or anger, whether we perceive ourselves as being valued, and whether we feel that what we are doing is meaningful. Just as we want to be treated fairly and feel valued, we tend to search for meaning in what we do. For example, would someone be willing to accept lower pay for a job they find personally meaningful in comparison to a job that pays more but is less interesting or less worthwhile? The case study in this lesson examines that question to help students understand the role of emotions in the decision-making process.