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Beliefs and ingroup favoritism[☆]

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ABSTRACT

We report on two experiments designed to investigate the role of beliefs for ingroup favoritism. On average, dictators transfer substantially more to recipients who are publicly known to share the same group identity, compared to transfers given to recipients who are publicly known to be outgroup matches. However, there is substantially less ingroup favoritism if the dictator is informed that the recipient is unaware of the shared group membership. Moreover, dictators tend to ask less often for information about a recipient's identity if disclosure would imply that the dictator's identity is also disclosed to the recipient. The evidence supports the view that ingroup favoritism is partly belief-dependent, in addition to the notion that shared group identity *per se* changes charity preferences.

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1. Introduction

Group identity causes more other-regarding behavior toward an ingroup match. When interacting with ingroup members, participants exhibit significantly more charity, are more likely to reciprocate positively, are more likely to forgive bad behavior, and are more likely to maximize overall efficiency (Chen and Li, 2009).¹ Since the seminal work by Akerlof and Kranton (2000), the effects of group identity on social behavior are mostly captured in terms of social preferences. For example, Chen and Li (2009) capture ingroup favoritism by allowing charity and other parameters of the participants' utility to be different for ingroup and outgroup matches. As in their experiment design no subject was informed about the group membership of the co-players who allocated money between ingroup and outgroup members, the evidence on ingroup favoritism found in this study can be directly related to social preferences. Up to now, there are only few studies that address the role of beliefs (and beliefs over beliefs) in explaining group identity effects. In fact, as Chen and Li (2009) note, social identity theories in psychology are largely silent on the role of beliefs: "Some other fundamental questions remain open. For example, does social identity change behavior by influencing agent's expectations about fellow ingroup members' behavior or by changing the agent's preferences?"

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¹ See also Götte et al. (2006) and Leider et al. (2009) for field evidence, Eckel and Grossman (2005) and Charness et al. (2007) for further evidence on dilemma games, and Bernhard et al. (2006), Götte et al. (2012) and Mussweiler and Ockenfels (2013) for evidence on punishment. Moreover, it has been shown that group membership improves coordination in minimum effort games (Bornstein et al., 2002; Chen and Chen, 2011), and facilitates trade between buyers and sellers in experimental markets (Li et al., 2011). Chen and Li (2009), and more recently Chen and Chen (2011), provide an overview of the economics and social psychology literature on group identity. We point to the group identity literature that is closest to our study in Section 2.

In our study we test whether and how ingroup favoritism is affected by beliefs in two laboratory dictator game experiments. In Experiment 1, we find – consistent with previous studies – that dictators double their transfer to recipients who are *publicly* known to share the same group identity, compared to transfers given to recipients who are publicly known to be outgroup matches. Here, public knowledge includes that each participant is informed that the opponent, too, knows about the shared group identity (it does not include any information revelation to participants outside the respective match). Compared to the public knowledge setting, transfers toward ingroup matches are substantially lower if the dictator is *privately* informed about being matched with an ingroup member, while the recipient remains uninformed about being an ingroup match, which is known by the dictator.

In Experiment 2, dictators can strategically manipulate the belief of the recipient. Dictators are *ex ante* uninformed about whether or not the opponent shares the dictators' own group identity but may choose to learn it prior to the transfer. Here, dictators tend to disclose the recipient's identity less often if this also involves informing the recipient about their own identity. Moreover, we find that a bias toward ingroup matches exists – in line with the notion that dictators' charity concerns are stronger toward ingroup matches and corresponding to the results by Chen and Li – but that it is substantially smaller for informed dictators in a treatment where the recipient is not informed about the dictator's group affiliation.

Hence, our results suggest that ingroup favoritism is not fully captured by the notion that shared group identity *per se* changes charity concerns. If that were the case, it would be sufficient for the dictator to know that both participants share the same group membership. Rather, our findings indicate that the belief of the dictator about the recipient's belief (that is, the dictator's second-order belief) is also an important driver of ingroup favoritism. This can be captured by models of belief-dependent preferences, which assume that beliefs (and beliefs about others' beliefs) directly enter the utility function (Geanakoplos et al., 1989; Battigalli and Dufwenberg, 2009). In particular, if higher donations are expected within groups, guilt aversion, according to which a dictator experiences disutility if he falls short of others' expectations (Battigalli and Dufwenberg, 2007), predicts that transfers to ingroup recipients are higher when shared group membership is public knowledge.

2. Experiment 1: Public and private knowledge about group membership

2.1. Experiment design and hypotheses

Altogether 158 subjects participated in the experiment, 79 German subjects in the dictator role and 79 recipients. Dictators had to decide how to allocate an amount of 10 euros between themselves and an anonymous recipient. We investigated the impact of social identity with the help of natural groups, as our participants were students affiliated with different universities: While all dictators were studying at the University of Cologne, recipients could either be from Cologne (ingroup) or from the neighboring University of Düsseldorf (outgroup), which was known to all subjects.²

In our IG-PUBLIC and OG-PUBLIC treatments, both the dictator and recipient were informed about whether (IG = ingroup) or not (OG = outgroup) they both study at the same university, and that this information is public in the sense that the opponent is also provided with this information. In our treatment IG-PRIVATE, on the other hand, the dictator was privately informed that his recipient is an ingroup match and the recipient does not know whether her dictator is an ingroup or an outgroup match.

Previous models of group identity preferences, such as Chen and Li's (2009) model, assuming that an ingroup recipient's payoff will increase the dictator's utility to a larger extent, suggest two null hypotheses. *Hypothesis 1* postulates that a dictator will on average transfer more toward ingroup than outgroup matches: IG-PUBLIC transfers > OG-PUBLIC transfers. Second, because the outcome-based group identity model abstracts away from the possibility of belief-dependent preferences, all that matters is group identity *per se*. Thus, *Hypothesis 2* postulates that there is no difference between private and public knowledge: IG-PRIVATE transfers = IG-PUBLIC transfers.

To identify the impact of social identity on dictator giving, we exploit a natural variation among subjects with respect to the saliency of their group affiliation: In particular, we hypothesized that subjects who not only study at the University of Cologne but also live in or nearby the city, group membership is more salient than for subjects who live in a more distant city. In the remainder of the paper, we report all results separately for the full sample and for the sample of participants

² The socio-economic status of students in Cologne and Düsseldorf is similar, as both cities are part of the same, economically prospering Rhineland area (for example, the German university magazine "Unicum" lists Cologne and Düsseldorf on ranks 41 and 34 out of 131 university cities with respect to living costs for students, with estimated monthly expenditures of 866.86 euros for Cologne and 899.66 euros for Düsseldorf; http://www.unicum.de/studienzeit/service/lebenskostenrechner/toplist_all.php, accessed 2 October 2013). Thus, there is little reason to conjecture that potential effects of group identity in our setting might be confounded by systematic differences in perception regarding the status of the participants. Instructions for the experiment can be found in the Appendix. In Experiments 1 and 2, subjects in the dictator role were invited to the Cologne Laboratory for Economic Research with the online recruitment system ORSEE (Greiner, 2004); their decisions were collected with the ztree software (Fischbacher, 2007). Because outgroup recipients are from a neighboring town, we decided to not invite recipients to our laboratory, but rather to instruct and pay them at different locations. In the PRIVATE treatments of both Experiments 1 and 2, all recipients from Cologne and Düsseldorf received an envelope with a sheet of paper informing them first, that a person in an experiment conducted at the Universities of Cologne and Düsseldorf had decided how to allocate an amount of 10 euros between the recipient and herself, and second, about the actual Euro transfer.

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