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Surprising gifts: Theory and laboratory evidence

Kiryl Khalmetski [a,1], Axel Ockenfels [b,*], Peter Werner [b]

[a] *Faculty of Economics and Business Administration, Goethe University Frankfurt, Theodor-W.-Adorno-Platz 1, D-60323 Frankfurt am Main, Germany*

[b] *Department of Economics and Center for Social and Economic Behavior (C-SEB), University of Cologne, Albertus-Magnus-Platz, D-50923 Köln, Germany*

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Abstract

People do not only feel guilt from not living up to others' expectations (Battigalli and Dufwenberg, 2007), but may also like to exceed them. We propose a model that generalizes the guilt aversion model to capture the possibility of positive surprises when making gifts. A model extension allows decision makers to care about others' attribution of intentions behind surprises. We test the model in a series of dictator game experiments. We find a strong causal effect of recipients' expectations on dictators' transfers. Moreover, in line with our model, the correlation between transfers and expectations can be both positive and negative, obscuring the effect in the aggregate. Finally, we provide evidence that dictators care about what recipients know about the intentions behind surprises.

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Keywords: Guilt aversion; Surprise seeking; Dictator game; Consensus effect

* Corresponding author.

E-mail addresses: kiryl.khalmetski@uni-koeln.de (K. Khalmetski), ockenfels@uni-koeln.de (A. Ockenfels), peter.werner@uni-koeln.de (P. Werner).

[1] Present address: Department of Economics and Center for Social and Economic Behavior (C-SEB), University of Cologne, Albertus-Magnus-Platz, D-50923 Köln, Germany.

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1. Introduction

Models of guilt aversion assume that people feel guilt from not living up to others' expectations (Battigalli and Dufwenberg, 2007, henceforth "BD"). Yet, it appears plausible that some people do not only suffer from negative surprises, but may also get pleasure from positive surprises (e.g., Mellers et al., 1997). We thus propose a generalized model of guilt aversion by incorporating the notion that people may care for both positive and negative surprises when making gifts.[2] In case of dictator games, our model implies that the dictator may experience a utility loss from falling short of the recipient's expected transfer, and a utility gain from exceeding it, both being a potential motivation to transfer money to the recipient. Moreover, our model predicts a positive correlation between transfers and expectations for dictators who want to avoid negative surprises, yet a *negative* correlation for dictators who have a relatively strong preference for creating positive surprises. The underlying rationale for the negative correlation is that there is more room to positively surprise a recipient with lower expectations; that is, the marginal utility gain from a positive surprise is increased by lowered expectation.

We test the model's predictions in a series of dictator game experiments and find strong support. Moreover, we show that our data reconcile seemingly conflicting evidence from previous studies on guilt aversion.

Our Experiment 1 is designed to investigate the prediction that dictator transfers can both decrease and increase with the recipient's expectation, depending on the weight put on positive and negative surprises, respectively. We find a strong causal effect of recipients' expectations on individual dictator transfers. The effect is obscured on the aggregate level because, as suggested by our model, dictators differ in how they react to the recipients' expectations.

Our evidence sheds light on the controversy about whether others' expectations directly affect social behavior or not. By eliciting subjects' beliefs about the expectations of interaction partners (second-order beliefs, SOBs), several studies detected a positive relation between beliefs and observed behavior. The first study along these lines was conducted by Dufwenberg and Gneezy (2000). In an experimental "lost-wallet" game, a player could either take an amount of money or pass the decision to a second player who then had to decide on how to split a larger amount between the two. The authors find that the decisions of the second player were positively correlated with their beliefs about what the first players expected from them as a transfer. In a study by Charness and Dufwenberg (2006), subjects who held significantly higher beliefs about their transaction partner's expectation were also more trustworthy. This is in line with several other experiments that have found positive correlations between subjects' self-reported beliefs and observed decisions.[3]

[2] Our research is part of the literature that is devoted to people's concern about beliefs *per se*, independently of the material outcome (Geanakoplos et al., 1989; Bénabou and Tirole, 2006; Andreoni and Bernheim, 2009). The framework of dynamic psychological games (Battigalli and Dufwenberg, 2009) incorporates many of these earlier approaches, including the notion that people suffer from guilt when they disappoint what they think are other players' expectations.

[3] For experimental evidence on the impact of belief-dependent preferences in trust, dilemma and principal–agent games see also Guerra and Zizzo (2004), Falk and Kosfeld (2006), Reuben et al. (2009), Dufwenberg et al. (2011) and Charness and Dufwenberg (2011). Vanberg (2008) investigated potential reasons behind the positive effect of promises on trustworthy behavior found in Charness and Dufwenberg (2006) and concluded that preferences for promise-keeping rather than preferences for meeting expectations might be the predominant driver of the results. With respect to dictator and ultimatum games, the willingness of some subjects to exploit information asymmetries between themselves and recipients suggests that behavior depends on beliefs (see, for example, Mitzkewitz and Nagel, 1993; Güth et al., 1996;