



## Why should I care - its Others Money

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### ABSTRACT

We examine the behavior of players when they play with their own vs. other people's money; we investigate this for both dictator and ultimatum games. The results suggest that the behavior of the players differs when they play with their own money as compared to other people's money. In a dictator game, the offer sizes are larger when playing for others, as people seem to offer more when they do not bear the cost. However, in ultimatum games, proposers tend to be more strategic, less risk averse and make lower offers, when they play with other people's money than with their own money.

Keywords: Dictator game; Ultimatum game; Other people's money

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### 1. Introduction

In a number of situations people make decisions, including monetary decisions on behalf of others (Kvaløy and Luzuriaga, 2014). Also, real life negotiations often involve negotiations done by others on behalf of actual beneficiaries (Mnookin and Susskind, 1999). Player behavior when they play with other people's money has not been widely reported in economic games. Exception being Kvaløy and Luzuriaga (2014), that examined how players in a trust game play with their money vs. other people's money. They report that the behavior of sender's is not very different whether they play for themselves or with other people's money. However, receivers return significantly lower money when the senders send a third party's money.

Dictator and ultimatum games are two economic games that have received a great deal of attention in economics literature. However, the behavior of people when they play with other people's money in these games has not been investigated. The objective of this paper is to understand how people make offers with other people's money in dictator and ultimatum game settings.

### 2.0 Study 1

One recurring result in dictator games has been that individuals tend to be altruistic and offer more than what is suggested by traditional economic assumptions (Kahneman et al., 1986). In a regular dictator game when people play for self, the offer is likely to be equilibrium between self interest, that reduces the offer size and a preference for generosity and fairness that increases the offer size. When people play for others, self interest is likely to be absent and hence offer sizes may be larger as the proposers can be generous without bearing any cost. Accordingly, the hypothesis is that in a dictator game when people play with other people's money, the offer size is likely to be higher than when they play with their own money.

## 2.1 Experiment 1

A total of 250 student participants from a pool of graduate/undergraduate students from a university in Western India participated for appearance fee of Rs. 50<sup>1</sup> as an initial compensation for showing up, some of them had the opportunity to increase their earnings through subsequent decisions made in the game. They were randomly assigned to one of the four roles in a dictator game setup.

A1: (n= 50) played dictator game as a proposer.

A2: (n = 50) played dictator game as a proposer on behalf of those in group A3.

A3: (n= 50) did not play a dictator game themselves, rather people in group A2 acted as a proposer on their behalf.

A4: (n= 100) acted as a receiver in the dictator game. Half of them selected randomly acted as receiver for A1 and other half for A2.

Participants in Group A2 were told that they would be making offers on behalf of an anonymous person randomly selected from another group (Group A3). Written instructions were provided to the participants in the classrooms. Half of the participants in A4 received offers from participants in A1; the other participants in A4 received offers from proposers in A2, making an offer on behalf of participants in A3. The instruction sheet had an individual identification number. After the experiment, the proposers and responders were randomly matched and assigned payoffs. The payments were made in closed envelopes the same day.

## 3.2 Results

A two tailed Mann Whitney test indicates that the offers are larger when participants make offers for others ( $Mdn = 25$ ) than when they do it for themselves ( $Mdn = 10$ ),  $U = 864$ ,  $p = .001$ . The results suggest that people are more generous in their offers when they are making offers with other people's money. It appears that when people do not bear the economic cost they tend to be generous and make fair offers.

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<sup>1</sup> Rs. 50 could buy a lunch/dinner for the participants.

**Table 1: Descriptive Statistics for offers in Dictator Games**

	Self	Others
Mean offer	19.2	29.8
Median offer	10	25

### 3.0 Study 2

The objective of this study is to understand whether the behavior of proposers in ultimatum game is similar to that in dictator games. Ultimatum games (UG) have been widely studied in economics and organizational behavior to understand various anomalies in human behavior (Thaler, 1986). The UG setting is much more complex than that of a dictator game; it involves two players playing to split some money. The first player (A) proposes a division between themselves and another player 'B'. Once the offer is made to 'B', they can either accept or reject this proposal. If 'B' rejects, neither player receives anything, however, if they accept, the money is split according to the proposal. In a dictator game, 'B' has no say in the split and cannot accept or reject the offer, hence in the dictator game the money offered is driven by generosity and norms of fairness that 'A' follows.. On the other hand, in UG the decision on the offer size is much more complex. The literature suggests that in a UG the offer by proposers results from a tension due to forces acting in opposite directions. Self interest tends to reduce the offer size, whereas the twin motives of preference for fairness and risk aversion i.e. the fear that small offers will not be accepted tends to increase the offer size (Thaler, 1988).

When players play with their own money, self interest works towards reducing offers size so as to maximize gains, while a bias for fairness and risk aversion is likely to increase the offer size. When proposers are playing for others, self interest may not come into play. Moreover, such situations also present an opportunity to be generous and fair at no cost to oneself. Hence, it is

likely that the offer sizes follow a similar pattern as in dictator game and offers made with other people's money is larger than that with own money.

### 3.1 Experiment 2

A total of 260 student participants from a pool of graduate/undergraduate students from a university in Western India participated for an initial appearance fee of Rs. 50, some of them also had the opportunity to increase their earnings through subsequent decisions in the game. They were randomly assigned one of the following four roles, B1 (n= 52, played UG as a proposer), B2 (n = 52 played UG as a proposer on behalf of those in group B3), B3 (n= 52, did not play a UG, people in group B2 proposed on their behalf) and B4 (n= 104, acted as responder).

The experimental protocol was similar to that in earlier experiment. After the offers were made, the proposers and responders were randomly matched and payments were made in closed envelopes the same day.

### 3.2 Results

A two tailed Mann Whitney test suggests that the offer sizes are smaller when participants make offers for others ( $Mdn = 40$ ) rather than themselves ( $Mdn = 50$ ),  $U = 755.5$ ,  $p = .000$ . The results indicate that when making offers with other people's money, proposers are less mindful that offers may be rejected and offer lesser amount than what they do when they make offers for themselves. While they have a chance to be fair to the recipients and be more generous at no cost to self, it appears that in ultimatum settings proposers are more risk seeking and strategic impulses crowd out instincts such as generosity and fairness.

**Table 2: Descriptive Statistics for Offers in Ultimatum Games**

	Self	Others
Mean offers	42.86	32.58
Median Offers	50	40

#### 4 Discussion

The results are in line with literature which suggests that the way people treat other people's money is different from the way they treat their own money (Andersson et al., 2014; Trump et al., 2014). As per the findings of this study, in a dictator game proposers are more generous in their offers when they play with other people's money. This indicates that people find it easy to be generous with other people's money as they do not have to bear the cost. However, in an ultimatum game setting, the behavior reverses. Proposers offer lesser, when they play on behalf of others than when they play for themselves. Given an opportunity to play with other people's money, proposers have the opportunity to make a generous offer without an economic cost to them, similar to the behavior in a dictator game. However, the evidence suggests that proposers tend to play strategically, make lower offers and show a lower concern with fairness and generosity.

It seems that in an ultimatum game, proposers are influenced by the strategic nature of the game. This is especially obvious when people are playing with other people's money. In such case, there is no economic cost, also the risk aversion in playing with other people's money is low (Chakravarty et al., 2005). As a result the strategic impulses crowd out the desire to be fair or generous.

This study points out a fundamental difference between the dictator and the ultimatum game. The dictator game is a game of charity where there are norms for sharing and there is a higher inclination to comply to these norms when the economic cost is low. On the other hand, the ultimatum game has components of generosity as well as strategy (Charness and Gneezy, 2008). It seems that when economic costs are low and there is no risk, the strategic orientation takes over with the desire to extract maximum surplus.

While it seems normal that people behave more strategically in the competitive setting of ultimatum game, it is surprising that people do so in situations where they do not benefit personally. Fairness is considered to be an important trait and it is thought of as being intuitive (Cappelen et al. 2015). However, the results of this study show that under competitive setting the instinct towards fairness may get weakened and strategic considerations are likely to take over even when no personal benefits are involved. The study indicates that people find it tough to balance a charitable and a strategic orientation. When they are exposed to a strategic setting, competitive instinct overpowers their generosity impulse even when no benefits are involved.

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