

Section Exercise for February 22/23: “Beauty Contest” and “Ultimatum” Games

1) The “Beauty Contest” Game:

- The GSI tells everybody in the room to—privately—write down a number between 0 and 100.
- The GSI then collects the slips and adds up the numbers.
- The winner is the one whose number is closest to $3/4$ of the average of the numbers chosen (flip a coin in the event of a tie).
- The GSI then hands the \$5 to the winner.
- What do you think went on? What do you think usually goes on? How does this fit economists’ standard view of how humans behave?

2) The “Ultimatum” Game:

- The GSI picks two people out of the class.
- He or she hands one of them the \$5 bill.
- The GSI then warns the first person not to say anything other than “yes” or “no”.
- The second person then proposes a split: “You give me \$X of the money, and you keep $5-X$.”
- If the first person agrees, the money is then split as agreed.
- If the first person says anything other than “yes”, then the money is returned to the GSI and the two players sit down.
- The GSI may, if there is time and if he or she has gotten the money back, let two more people play the game...
- What do you think went on? What do you think usually goes on? How does this fit economists’ standard view of how humans behave?