

"Measuring the Willingness to Pay to Avoid Guilt: Estimation using Equilibrium and Stated Belief Models"

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Abstract:

We estimate structural models of guilt aversion to measure the population level of willingness to pay (WTP) to avoid feeling guilty by letting down another player. We compare estimates of WTP under the assumption that higher-order beliefs are in equilibrium (i.e. consistent with the choice distribution) with models estimated using stated beliefs which relax the consistency requirement. We estimate WTP in the later case by allowing stated beliefs to be correlated with guilt aversion, thus providing a direct test and control of a possible (false) consensus effect. All models are estimated using data from an experiment conducted with a large and representative sample of the Dutch population. We find that equilibrium and stated belief models both suggest that second movers experience significant guilt aversion from letting down first movers who could let them decide over the final payoff. Second movers are on average willing to pay up to 0.80 Euro to avoid letting down first movers by 1 Euro. Moreover, estimated WTP remains positive and significant in models using stated beliefs despite controlling for significant correlation between preferences and beliefs. Finally, we find no evidence that WTP is significantly related to the observable socio-economic characteristics of players.