



UNIVERSITÀ DEGLI STUDI DI TRENTO

DIPARTIMENTO DI ECONOMIA

**Conformity, Reciprocity and the Sense of
Justice**
**How Social Contract-based Preferences
and Beliefs Explain Norm Compliance: the
Experimental Evidence**

**Lorenzo Sacconi
Marco Faillo**

Discussion Paper No. 14, 2008

The Discussion Paper series provides a means for circulating preliminary research results by staff of or visitors to the Department. Its purpose is to stimulate discussion prior to the publication of papers.

Requests for copies of Discussion Papers and address changes should be sent to:

Dott. Luciano Andreozzi
E.mail luciano.andreozzi@economia.unitn.it
Dipartimento di Economia
Università degli Studi di Trento
Via Inama 5
38100 TRENTO ITALIA

CONFORMITY, RECIPROCITY AND THE SENSE OF JUSTICE HOW SOCIAL CONTRACT-BASED PREFERENCES AND BELIEFS EXPLAIN NORM COMPLIANCE: THE EXPERIMENTAL EVIDENCE*

by

Lorenzo Sacconi^a and Marco Faillo^b

ABSTRACT

Compliance with a social norm is a matter of *self-enforceability* and *endogenous motivation to conform* which is relevant not just to social norms but also to a wide array of institutions. Here we consider endogenous mechanisms that become effective once the game description has been enriched with pre-play communication allowing impartial agreements on a norm (even if they remain not binding in any sense). Behavioral models understand conformity as the maximization of some “enlarged” utility function properly defined to make room for the individual’s “desire” to comply with a norm reciprocally adhered to by other participants – whose conformity in turn depends on the expectation that the norm will be *in fact* reciprocally adhered to. In particular this paper presents an experimental study on the “conformity-with-the-ideal preference theory” (Grimalda and Sacconi 2005), based of a simple experimental three person game called the “exclusion game”. If the players participate in a “constitutional stage” (under a veil of ignorance) in which they decide the rule of division unanimously, the experimental data show a dramatic change in the participants’ behavior pattern. Most of them conform to the fair rule of division to which they have agreed in a pre-play communication stage, whereas in the absence of this agreement they behave egoistically. The paper also argues that this behavior is largely consistent with what John Rawls (1971) called the “sense of justice”, a theory of norm compliance unfortunately overlooked by economists and which should be reconsidered after the behaviorist turn in economics.

Keywords: conformist preferences, reciprocity, veil of ignorance, psychological games, fairness, experiments.

JEL classification: C7, C9, D63, D64

* Paper presented at the ISNIE 2008 - 12th Annual Conference in Toronto.

This work is based on the experimental evidence collected by Sacconi and Faillo (2005). In this paper the reader will find a new quantitative analysis and a more general theoretical interpretation of the results of the original experiment. This paper is part of two larger research projects: “Social capital, corporate social responsibility and local development” supported by the PAT, and “CSR and corporate governance” supported by the MIUR. Help from both the institutions is gratefully acknowledged.

^a Department of Economics, University of Trento, via Inama, 5 38100 Trento, and EconomEtica, interuniversity center of research, University Milano-Bicocca, viale dell’Innovazione, 10 20126 Milano, Italy.

(lorenzo.sacconi@economia.unitn.it,

^b Department of Economics, University of Trento via Inama, 5 38100 Trento, Italy (mfaillo@economia.unitn.it)

1. Introduction and motivations

In the past few years, a number of new theoretical models have been introduced in the field of behavioral game theory with the aim of explaining the systematic deviations from purely selfish behavior observed in experiments based on simple games (Ultimatum Game, Public Goods Game, Dictator Game, Trust Game etc.). Common to these models is the assumption that economic agents are characterized by complex systems of preferences in which there is room for motivations like altruism, inequity aversion, spitefulness, desire to reciprocate other's behaviors, and the like (Rabin, 1993; Fehr and Schmidt, 1999; Falk and Fischbacher, 2006; Levine, 1998).

Despite their contribution to enriching the traditional model of the *Homo Oeconomicus*, these models fail to provide a thorough description of the motivations at the basis of the decision to comply with social norms. In brief, they are not able to provide an answer to this question because they make it tautological by simply incorporating a normative principle within individual preferences, without treating it as a separate object, and then modeling the motivation (let it be a preference) for complying in interaction contexts with other agents. Hence, still missing is a behavioral explanation of how compliance is possible in situations where i) norms prescribe choices which imply a cost in terms of material self-interest and ii) they cannot be fully enforced by (formal or informal) sanctions and rewards.

Compliance with a social norm is a matter of *self-enforceability* and *endogenous motivation to conform* relevant not just to the study of social norms *per se*, but also to a wide array of institutions. The self-enforceability of norms is in fact also important for compliance with legal norms in all those fields where exogenous enforcement of the law is fragile or ineffective in providing incentives or sanctions, whilst self-interest is not aligned with the behavior prescribed by the law. Consider for example – at the micro level – the shared norms of business ethics which make incomplete contracts viable. Or – to jump to the level of macro institutions – conformity with the typically incomplete “constitutional contract” on a set of basic constitutional principles, which must elicit broad consensus and spontaneous compliance well before an effective mechanism of punishment of violators can be put into practice in order to deter what may be just a small number of deviations with respect to the number of individuals who continue conforming with the constitution. Moreover, consider the extensive reliance on soft laws and self-regulations based on voluntary but largely accepted standards of behavior in many business fields (codes of ethics, quality standards, environmental standards, CSR and human rights international business

standards etc.) typically prescribing that firms and business organizations should adopt what is *prima facie* counter-interested – at least in the short run – economic conduct. The customary economic explanation of these phenomena usually resorts to the typical repeated games model analysis. But given that repeated game equilibria mainly rest on the quite *cognitively* fragile mechanism of reputation – how can one say that a commitment (or a type) has been carried out under unforeseen or unobservable contingencies? – it seems clear that they cannot provide a universal and self-contained explanation for these phenomena. Sometimes – most of time, we suspect – other motivational drives and cognitive mechanisms must already be at work in the one-shot game setting. These mechanisms become effective once the game description has been enriched with pre-play communication and unanimous pre-play agreements on a norm (which nevertheless remains not binding in any sense), so that the cognitive framing effects emerges that participants categorize the current situations as one where a social norm does in fact exist . A behavioral game theory explanation in these cases can view conformity as the maximization of some “enlarged” utility function, where “enlargement” is intended to make room for the presentation of an individual “desire” to comply with a norm reciprocally adhered to by other participants – which in turn is seen as depending on first- and higher-order beliefs consistent with the expectation that the norm will be *in fact* reciprocally adhered to. Contributions to the study of “norm conformity” along this line of argument are based on the models recently devised by Grimalda and Sacconi (2002, 2005, see also Sacconi and Grimalda, 2007) and Bicchieri (2006). The feature shared by these models is that the agent’s willingness to conform with a shared social norm depends on reciprocal expectations concerning what the other agents will do in a situation where a decision whether or not to conform is at stake, and at least a second-order prediction about what the second player is conjecturing about compliance by the first is involved. In some models, like Bicchieri’s , also normative expectations are important. In models of psychological games, like Grimalda and Sacconi’s, first-order and second-order beliefs become parts of the argument of the utility functions – i.e. to what extent one player believes the other will conform operates not just as a probability weight that externally influences the expected value of conformity, but also as an *intrinsic motive to act expressed* by a preference for or against a given strategy. If the proper reciprocal expectations concerning reciprocity in conformity with the norm in a given state (strategy combination) are in place, the game payoffs may be accordingly influenced through the addition of a psychological utility parameter (call it “ideal conformity utility”). Grimalda and Sacconi’s model in particular sees compliance as the consequence both of agents’ participation in choosing the norm in a social contract setting ‘under a veil of ignorance’

and of the existence of expectations about reciprocal willingness to conform. Agents are characterized both by a standard *consequentialist* motivation, and by a *conditional willingness to conform with an ideal* normative *principle* of justice. The ideal is understood as a normative principle of justice rationalized as the agreed outcome of a social contract, modeled as the bargaining solution of a cooperative bargaining game carried out under a ‘veil of ignorance’ in a pre-play stage with respect to the play of the actual non cooperative game which is the focus of the analysis. Pre-play communication is cheap talk in standard non cooperative game theory terms. Even though principles agreed upon by cheap talk are not effectively binding in any sense, the model explains how individual agents endowed with this two-tier motivational structure will conform with the ideal principle agreed, provided that they have unanimously agreed on it and that they also reciprocally expect mutual conformity.

In this paper, after discussion of the compliance problem and a review of the conformist preference theory, we present an experimental study aimed at translating the “conformity-with-the-ideal preference model” into a properly defined experimental setting that makes it possible to explore the empirical validity of the theory. We devise a simple three person game (with two active players and one dummy player who can only receive the consequences of the active players’ decisions), called “exclusion game”, the purpose of which is to grasp some features of social situations where strong players decide and put into practice social institutions (for example rules on admittance into the distribution of a given social surplus) affecting not only their own well-being but also that of weaker players. Standard economic behavior would naturally suggest that in this situation the active players will not share any part of the social surplus with the weak (dummy) player. If the players participate in a “constitutional stage” (under a veil of ignorance) in which they unanimously decide the rule of division by anonymous vote, even if this decision is effective only in admitting them to the play of the proper exclusion game - with respect to which it cannot bind them in any sense - the experimental data nevertheless show a dramatic change in the participants’ behavior pattern. Most of them conform with the fair rule of division that they have previously agreed upon (in the so to speak “cheap talk stage of impartial agreement on the rules”), contradicting what they did in the first stage. This behavior is largely consistent with predictions derivable from the theory, and they also suggest that the model could be considered an explanation of a weak form of what John Rawls (1971) called the “sense of justice” - an idea mistakenly overlooked in the past, but which seems very promising under a behaviorist perspective. It is for this reason that we initially review this approach - which seems to be the real

implicit inspiration of the conformist preference model that we empirically test in our study (see also Sacconi and Faillo 2005) .

2. Norm compliance and the “sense of justice”

Adopting the social contract perspective seems appropriate in order to appreciate the problem of norm compliance. In fact the social contract approach maintains that norms must be based on the consensus and voluntary compliance of those regulated by the norm itself. The idea of a rational agreement (i.e. the social contract) must thus be simultaneously developed in two directions: on the one hand, it must work as a justification by giving reasons for agreeing on the norm from an impartial and impersonal standpoint; on the other, the same idea must have direct implications for personal incentives and motivations to comply with the norm in practice. In a ‘state of nature’, namely a situation of pre-institutional strategic interaction, the norm can be implemented only if the agreement is self-enforceable. In other words, the social contract can resort to no other means of implementation than those which the agreement is able to induce by itself. David Gauthier, however, clarifies that these two directions pose two separate choice problems, with clearly distinct not concomitant? rationality criteria that a contractarian explanation of norms must nevertheless overcome simultaneously and consistently (see Gauthier, 1986, pp. 116-118):

- a) *The entry into agreement problem (internal rationality)*: all individuals, when deciding whether to enter an agreement on the institution of a norm, perform a rationality assessment on whether the norm will enable them to escape from a reciprocally unprofitable interaction and permit them to initiate a mode of mutually beneficial cooperative interaction. This point of view requires *internal* rationality because it views the agreement from *within* the perspective of cooperative bargaining - which takes it *for granted* that if an agreement is reached, it will be implemented to the mutual advantage of the participants. Hence no *ex post* decision (after entrance) is relevant here. On the contrary, this case requires that entering the agreement *ex ante* may be recognized as mutually beneficial. Rational bargaining takes place in situations where there is some feasible surplus to be distributed amongst the individual participants, granted that they are able to reach an agreement. But there are too many agreements possible - some of them preferred by one party, others by another. A bargaining game is a way to solve this coordination problem before the cooperative game is played whereby the agreed joint strategy is executed in order to produce and allocate the surplus.

b) *The compliance problem (external rationality)*: when we move from the *ex ante* to the *ex post* perspective, we ask whether an agreement reached can also be complied with by the same players who agreed on it. This is a different problem because the game-logic of compliance differs from that of entering a bargain in a cooperative game. It is instead the logic of an *ex post* non-cooperative game in which the players decide separately but interdependently whether or not to comply with the *ex ante* agreed contract. From this perspective, the question is not so much whether the contract provides reasonably high joint benefits and distributes them in an acceptably fair way; rather, the question is mainly whether there are incentives for cheating on the counterparty to the agreement, given the expectation that s/he will abide by the contract. Thus, according to Gauthier, the search for external rationality must address the problem of a potential divorce between individual rationality (expected personal utility maximisation) and social optimality (i.e. Pareto efficiency) which is instantiated by the typical Prisoner's Dilemma game

Impartiality within a contractarian framework amounts to no more than a condition of invariance for the *ex ante* acceptance of a given bargaining outcome from the viewpoint of each and all (under the permutation of personal standpoints allowing the impartial decision-maker to take each player's point of view in turn). By contrast, compliance is the typical sphere in which *ex post* rationality is required. In the compliance problem, separate but interdependent strategy choices are under consideration, and the players are always able to say whether or not they want to implement the agreement given their prediction of the other player's decision whether or not to comply with it. It follows that the main problem to be solved in the compliance context is how a norm can also generate motivational causal forces strong enough to induce the execution of the norm in situations where it may require a *prima facie* counter-interested behaviour by the agent at least in the immediate term.

In the long-standing debate on the relationship between rationality and morality, some authors have sought to revise the notion of instrumental rationality to include rational choice of dispositions.¹ A disposition would constrain later choices, so that the agent can disregard local incentives even if these imply that there are local advantages to deviating from the action plan corresponding to the disposition.

¹ As in Gauthier's *constrained maximisation* theory (1986, 1990,1994) and McClennen's *resolute choice* theory (1990a,b, 1993).

These attempts to overcome the compliance problem seem not to have been successful. On the one hand, the revision of the instrumental rationality required for a theory of disposition choice seems to presuppose what it should demonstrate. The choice of a disposition seems to be very similar to the decision to undertake a conditional binding commitment, which is obviously problematic in that the compliance problem is assumed to have a PD-like structure that prevents assuming that such binding commitments are possible. If binding commitments are allowed, of course, the proposed line of argument is not a reform of instrumental rationality at all – it only amounts to a perhaps reasonable change of the game considered. It *seems* to reduce morality to instrumental rationality by showing that abiding by a norm of conditional cooperation is rational. But in doing so, it must *presume* that dispositions are ‘out there’ and endowed with all their disciplining force independently of rational choice. And whilst dispositions are taken to be choices at our disposal - we can decide whether or not to develop them - they are also presumed to command our later behaviours, being immune to opportunistic changes when these seem profitable, as if these choices were beyond our control.

On the other hand, the situation becomes quite problematic if we try to explain how developing a conditional disposition to abide by a norm of cooperation may be reduced to a question of instrumental rationality and practical deliberation. This amounts to demonstrating that it is “rational” to decide to be that kind of person who acts according to a conditional disposition to comply with the norm, even before the disposition is capable of constraining our behaviour and even if we could also devise dispositions able to cheat other players similarly involved in cultivating conditionally cooperative dispositions. For example, a tricky disposition that continues to dispose the player, who undertook it, to conditionally cooperate until another player interacting with him “reads” the disposition itself, but then changes the disposition in order to allow the player exploiting the second player’s disposition to cooperate (Danielson 1992). In short, this line of reasoning seems bound to produce many sorts of contradictions (see Binmore, 1998)

What seems mistaken in this approach, however, is not the idea of analyzing moral dispositions but the idea that undertaking moral dispositions may be a matter of practical reasoning and sophisticated instrumental decision calculus, whereas it could be a matter of developing a moral sentiment (the “desire” to be just) endowed with some motivational force on its own, and capable of generating additional motivational drives to act that can be introduced into the players’ preference systems - under proper conditions to be defined. If this simple idea is accepted, the desire to comply could be an input to the compliance decision, not the output from a reform of

the decision theoretic machine, and we would only need to understand how this desire may be engendered and how it is connected to the social contract. This could enable us to discover other - quite different - causal connections between the decision to comply and the rationality of an ex ante agreement.

A similar approach to the compliance problem was suggested by John Rawls in the *Theory of Justice* (1971), where he proposed the “sense of justice” as a solution for the stability problem of a well-ordered society - i.e. a society whose institutions are arranged according to the principles of justice (norms in our sense) chosen under a ‘veil of ignorance’. This solution, however, was for long overlooked by economists and game theorists because it was at odds with the methodology

of rational choice in that it resorted to socio-psychological assumptions common in theories on moral learning.²

However, given the behaviorist turn in microeconomics, it is time to reconsider this neglected solution and to acknowledge that it may suggest an illuminating explanation of why (sometimes) some of us comply with just institutions even if we have some direct material incentive not to do so. The rest of this section thus summarizes Rawls' argument about how a sense of justice is engendered in a well-ordered society, and finally suggests the relevant features of Rawls' theory captured in the conformist preferences model.

Justice as fairness, Rawls says, understood as the set of principles of justice chosen 'under a veil of ignorance' – once the principles are assumed to shape the institutions of a well-ordered society

² Rather ironically, Rawls' theory has been vindicated in game theoretical terms by the proof that, given a set of non cooperative equilibria resulting from the natural evolution of society, the only selection compatible with both the feasibility condition of equilibria and impartiality (invariance under the personal position symmetric replacement) is Rawlsian maximin or the egalitarian solution (see Binmore 2005). This means that if one wants to implement a choice under the veil of ignorance through an equilibrium point that guarantees incentive compatibility, then one must focus on equality or the maximin solution. This is ironical, because if Rawlsian principles for institutions were stable in the Nash equilibrium sense – that is, if they provided the only equilibrium selection mechanism under the veil of ignorance, whereas other principles, like utilitarianism, would be unfeasible and not implementable – they would be complied with only for self-interested reasons and would dispense with the emergence of any whatever "sense of justice". Consider, however, that this argument only proves that Rawls' proposal is superior to any other social contract solution under the veil of ignorance if what is required is making a selection *within* the set of equilibria emerging because of natural evolution by resorting to the moral artifice of solution invariance under a symmetric translation of the equilibrium set with respect to the players' points of view. Rawls' general argument, however, could be understood as not imposing ex ante the constraint that a fair agreement should be confined *within* the naturally evolved set of equilibrium points.

McClennen (1990) on the contrary has taken this part of Rawls' theory as the basis for his own approach to the stability of the constitutional contract. Similarly to Rawls and Gauthier, McClennen thinks that compliance is a disposition to cooperate conditionally on other players' cooperation. However, he finds Rawls' solution weak in so far as it postulates the sense of justice as an attitude which is engendered by the creation of the well-ordered society's institutions, chosen under a veil of ignorance, but it is not a matter of rational choice over dispositions as such. According to McClennen, Rawls' approach is exogenous with respect to the mechanism of rational choice, and he seeks to endogenize the sense of justice through his theory of resolute choice extended to the context of non cooperative games (McClennen 1993). Resolute choice in these contexts means that a player undertakes by a decision a disposition that commits himself to forgo, at some later decision node in the game tree, opportunities for defection which are locally advantageous (so that locally defecting can be dominant). The reason for doing so is a requirement of consistency with an initial plan, which – when followed by all – permits players to achieve collectively higher payoffs and to fare better. Of course this idea cannot work if players have the effective option of defecting at a later decision node where they find that it is locally rational to do so because of local incentives (for example in a last stage having the Prisoners' Dilemma structure without reputation effects). Hence McClennen suggests reform of the theory of rational decisions in games, admitting that in order to allow this kind of choice over effective dispositions, able effectively to commit players, we should relinquish hypotheses such as the game tree's separability into its sub-games, and consequently renounce the possibility of truncating sub trees and substituting them with their local solutions (when available). He concludes by giving up backward induction (also when it could provide uniquely determined solutions). Our opinion is that this reform of rationality criteria is too costly to the theory of game, whereas Rawls' perspective is endogenous enough for the endeavor to explain the emergence of a sense of justice as a set of attitudes governed by a disposition having motivational force on its own (the force of a desire) because it is grounded on the ex ante decision under a veil of ignorance and it influences the cognitive mechanisms of expectations formation and motivations formation, leading to a preference capable of commanding a decision behavior.

– provides its own support to the stability of just institutions. In fact when institutions are just (here it is clear that we are taking the ex post perspective, i.e. once the constitutional decision from the ex ante position has already been taken and for some reason has been successful), those who take part in the arrangement develop a sense of justice that carries with it the desire to support and maintain that arrangement. The idea is that motives to act are now enriched with a new motivation able to overcome the counteracting tendency to injustice. Note that instability is clearly seen in term of a PD-like situation: institutions may be unstable because complying with them may not result in the best response of each participant to other members' behavior. However, the sense of justice, once developed, overcomes incentives to cheat and transforms fair behavior into each participant's best response to the other individuals' behaviors.

To understand how this is possible, it is necessary to consider the definition of 'sense of justice'. Although it presupposes the development of lower-level moral sentiments of love and trust, understood as feelings of attachment to lower-level institutions (families and just associations), if these institutions are perceived to be just, it is noticeable that the sense of justice is? a desire to act upon general and abstract principles of justice as such, once they have been chosen under a veil of ignorance as the shaping principles of institutions, and hence have proved beneficial to ourselves in practice. Note that it is not the case that we act upon the principles insofar as they are beneficial only to concrete persons with whom we have direct links and emotional involvements. Once the level of a morality of principles has been reached, our desire to act upon the principles does not depend on other people's approbation or on other contingent facts such as satisfaction of the interests of some particular concrete person. On the contrary, it is the system of principles of justice in itself that constitutes the object of the sense of justice.

The question to be answered thus becomes how it is possible that principles themselves are capable of influencing our affections - that is, of generating the sense of justice as a relatively self-contained "desire to conform with the principles". The answer is twofold.

First, the sense of justice is not independent of the *content* of principles. These are principles that we could have decided to agree upon under a veil of ignorance as expressions of our rationality as free and equal moral persons. These principles are mutually advantageous and hence impartially acceptable by a rational choice, even if it is made from an impartial perspective, for they promote our interests and hence have some relation with our affections (preferences). Thus, in order for a sense of justice to develop, principles cannot be arbitrary. They must be those principles that would have been chosen by a rational impartial agreement.

Second, despite the intellectual effect of recognizing that principles are rationally acceptable, the basic fact about the sense of justice is that it is by nature a moral sentiment inherently connected to natural attitudes. Moral sentiments are systems of dispositions interlocked with the human capability to realize natural attitudes. Thus moral liability for lacking moral sentiments has a direct counterpart in the lack of certain natural attitudes which results in affective responses like a sense of guilt, indignation or shame. Hence, even though the thought experiment of a decision under the veil of ignorance merely aids us in the *intellectual* recognition of principles acceptability, the sense of justice retains a motivational force on its own, which can be only traced back to its nature as a moral sentiment or desire not entirely reducible to the experience of its intellectual justification.

The proper functioning of the sense of justice can be understood, however, as the third level of a process of moral learning which in its first two steps already cultivates moral sentiments of love for parents and trust and friendship vis-à-vis the members of just associations in which the individual already takes part - and which s/he re-elaborates on those pre-existing sentiments. “Given that a person’s capacity for fellow feeling has been realized by forming attachment in accordance with the first two ...[levels] and given that a society’s institutions are just and are publicly known to be just, then this person acquires the correspondent sense of justice as he recognized that he and those for whom he cares are the beneficiaries of these arrangements” (Rawls, p.491.)

As seems clear, reciprocity is a basic element in this definition. In fact reciprocity is understood as a deep-lying psychological fact of human nature amounting to the tendency to “answer in kind”. The sense of justice “arises from the manifest intention of other persons to act for our good. Because they recognize they wish us well we care for their well being in return. Thus we acquire attachment to persons and institutions according to how we perceive our good to be affected by them. The basic idea is one of reciprocity, a tendency to answer in kind” (p. 494). Two aspects are to be noted concerning the other person’s “manifest intention” which elicits the tendency to “answer in kind”. We recognize an *unconditional* caring for our good deriving from other people acting consistently with the principles of justice. Hence reciprocity is elicited not from the mere coherence of institutions with the principles of justice, but from the fact that other people make our good by acting intentionally upon those principles. What matters is not just reciprocity in accepting the principles, but the intention displayed by other players’ concretely acting upon the principles for our well-being. Secondly, this intention cannot be a direct intention toward us as particular persons. By complying with principles, our good is pursued in an unconditional way -

that is, impartially and not conditionally on any particular description of us based on contingent characteristics or positions.

Summing up, we may reconstruct the hypotheses that according to Rawls must be satisfied in order for a sense of justice to evolve:

- a) lower level moral sentiments must have fostered our capacity for a sense of justice; they are exogenous factors pertaining to the psychological make-up of the person and affecting his/her emotional capacity;
- b) we recognize that ongoing institutions (norms) are just because we are able to justify them in terms of their acceptability under a veil of ignorance agreement;
- c) it is public knowledge that institutions are just, which seems to mean not only that we know that they are justified, and we know that also other individuals know that they are justified, but also that we publicly know that they effectively operate for the most of the time in accordance with the principle of justice;
- d) from the facts that we publicly know that institutions are just, and that others know that they are just and work according to the principles of justice, it follows that other individuals conform with the principles and hence are our beneficiaries in an unconditional way, and we know that they are;
- e) under the foregoing conditions, everybody is driven by a deep psychological tendency to answer in kind, which means replicating conformity with the principles, given that conformity with principles by others expresses an intention to be beneficial to us in an unconditional and impartial manner.

When these premises are satisfied, the sense of justice develops, and becomes an integral part of our conception of the good. That is to say, it becomes an integral part of what we see as our good, part of the final ends that we pursue with our intentional behavior.

Clearly, some points left inexplicit in Rawls's text have been completed by interpretation in our reconstruction. It also makes immediately evident that the sense of justice is a force that typically emerges and stabilizes a well-ordered society only *ex post*, when institutions are already "out there" operating through some level of compliance by the members of society. Thus the question arises of where compliance with principles arise from at the very first step of their implementation, when it cannot be said that there is an history of well-ordered society institutions already operating.

Nevertheless, important here are the following elements taken from Rawls's analysis and incorporated into the model of conformist preference explained in the next section.

- i) First, there is an exogenous disposition in our motivational system of drives to action – the capacity of a desire to act upon principles or the agent’s duties. This derives from learning about the justice of lower-level institutions (family, associations) or the widespread operating of the institutions of a well-ordered society (such that if these conditions are not fully satisfied this exogenous motivational factor cannot be assumed to have an overwhelming force in general, and thus must balance with other motivational drives).
- ii) Second, the foregoing element defines as just a capacity for the sense of justice, but its proper formation depends upon conditions relative only to the principles of justice and their compliance, as follows
 - a. agents construe and justify norms as the result of an impartial agreement under the ‘veil of ignorance’, i.e. before considering conformity, the principles of different states of affairs resulting from compliant or non-compliant actions must be assessed in term of their consistency with the fair principles - compliance is not arbitrary;
 - b. each agent knows that also others justify the norm and assess compliance decisions in a similar way;
 - c. we know, or have the reasoned belief that other agents are effectively playing their part in carrying out the principles, and this behavior, because of the content of the principles it conforms with, expresses an intention to be beneficial to us in impartial terms. Thus by playing our part in compliance we may be understood as reciprocating other agents’ intentions - i.e. our compliance is conditional on theirs;
 - d. owing to the hypothesis of public knowledge, also other agents are predicted as having (and we know that they have) the reasoned belief that we do our part in benefiting them in an impartial manner by acting upon the principles, and thus they may be seen as reciprocating our intention expressed by our compliance with the principles – hence our compliance is conditional on their reciprocity as well.
 - e. When these conditions are satisfied, our capacity to form a “sense of justice” becomes effective and translates into a motivational force able to counteract incentives to act unjustly in situation like the PD game – i.e. a psychological preference for complying overcomes the preference for personal advantages

gained by not complying and opportunistically exploiting other agents' cooperation.

An alternative interpretation could assume that simply because all individuals know that institutions are just in terms of the principles, any particular individual develops the desire to comply with them. But in this case it would be entirely unclear how an individual is able to understand that other agents' behaviors are expressing the intention to benefit him/her by following the principle of justice, which seems a necessary condition for saying that by complying with the principle s/he 'responds in kind'. If his/her response in kind does not simply amount to intellectual acceptance of the principles but also consists in complying with them, it is necessary that other agents do not simply accept or recognize intellectually that institutions are just; they must also be seen as acting upon the principles in practice. Only in this case can compliance be a response in kind - compliance in return for compliance. Thus the sense of justice not only depends on the direct assessment of any decision in terms of its coherence with principles but is also conditional on beliefs concerning the effective compliance by other agents given what they themselves believe. Even if this seems to be the correct understanding of Rawls, we call it a weak version (conditional and reciprocity based) of Rawls's sense of justice.

3. Conformist preferences

The theory of conformist preference (Grimalda and Sacconi, 2002, 2005; Sacconi and Grimalda 2007) was developed in order to explain nonprofit organizations, but it proves entirely consistent (but more precisely testable) with the general idea of norm compliance derived from Rawls.³

Assume that two or more players are involved in a typical non cooperative game where Nash equilibria are suboptimal, or in a non cooperative division game such that the Nash equilibrium is so defined that at least some players are completely excluded from the division of the surplus? and hence equilibria are not mutually beneficial (on this game see the next section). Before such a

³ We don't say that the theory is entirely Rawlsian, since it assumes that in the ex ante decision a social contract is subscribed on the Nash bargaining solution of the relevant game, whereas Rawls would have suggested the maximin solution. What we simply say is that the solution given to the norm compliance problem through conformist preferences is strictly consistent with Rawls' idea of the sense of justice. However consider that the Nash bargaining solution in a symmetric bargaining situation implies the egalitarian solution which is also consistent with Rawls' maximin. As Binmore shows, this consistency illustrates an essential feature of the decision under the veil of ignorance, when it is restricted to the payoff space resulting from the symmetric translation of the equilibrium set with respect to the Cartesian axes representing the players' payoffs (Binmore 2005).

game is played, it is assumed that a pre-play communication stage occurs wherein, by an impartial (“behind the veil of ignorance”) decision, players may agree on a principle of distributive justice (a norm) assigning a solution to the ensuing game (even though this solution will not necessarily coincide with an equilibrium point, i.e. it can be incentive incompatible). In classical game theory terms, this pre-play communication phase is simply “cheap talk” in that agreements reached in this phase are not binding commitments and hence do not constrain or restrict the strategy space of the ensuing game in any way.

Nevertheless, at this stage, players put themselves in the hypothetical situation of an *ex ante* potential agreement. They perform the collective thought experiment of playing a bargaining game under a ‘veil of ignorance’ - each of them concealing from the others his/her identity and role as a player in the ensuing actual game. By this stage they can agree on a principle of justice able to determine a solution for the ensuing game from a normative point of view. The theory of conformist preference explains why this pre-play communication stage can result in effective decisions to comply with the agreed principle through an endogenous engendering of a preference favorable to compliance with the agreed principle that may counterbalance the material incentives represented in the initial description of the game.

The idea is that economic agents are motivated both by consequentialist (and mainly self-interested) and “conformist” preferences - that is, the intrinsic motivation to act according to an agreed principle if complied with reciprocally by other interacting agents as well. Thus, the utility maximization model of a rational economic man can be considerably revised, extending its explanatory and normative power at a substantive level by representing these different kinds of preferences in the corresponding part of a *comprehensive* utility function.

The model assumes what we call a *description-relative* viewpoint of preferences. The same states of affairs generated by the players’ strategic decisions can be described in different ways according to their relevant characteristics. A first description of states views them as consequences: what happens to any particular participant, or only to the decision maker, because of a given course of action. In general, if a player defines his/her preferences only on states *described as consequences*, then s/he has *consequentialist personal preferences*. These preferences are accounted for by the typical utility function of a player, U_i which for convenience will be called the *material component of the utility function*.

But secondly, states can be described only as sets of interdependent actions and then characterized in terms of whether or not they are consistent with a given abstract principle of distributive justice seen as resulting from a (possibly hypothetical) *ex-ante* agreement between the

players involved in the interaction. The utility function component representing these preferences will be called the ‘conformist utility’ of a player and it must be defined so as to give a consistent representation of the deontological motive to act that underlies this preference. In fact, intuitively speaking, a player will gain intrinsic utility from the simple fact of acting in accordance with a principle, if s/he expects that in this way s/he will be able to contribute to fulfilling the distributive principle, admitted that s/he expects the other players also to contribute to fulfilling the same principle, given their expectations.

A complete measure of conformist preferences consists in the combination of the following four elements through the conformist-psychological component of a player utility function (see Grimalda and Sacconi 2005):

First, a principle T , which is a social welfare function that establishes a distributive criterion of material utilities. Players adopt T (the norm) by agreement in a pre-play phase, and employ it in the generation of a consistency ordering over the set of possible states σ , each seen as a combination of individual strategies. The highest value of T is reached in situations σ where material utilities are distributed in such a way that they are mostly consistent with the distributive principle T within the available alternatives. Note that what matters to T is not “who gets how much” material payoff (the principle T is neutral with respect to individual positions), but how utilities are distributed across players. Satisfaction of the distributional property is the basis for conformist preferences. Let us assume that T coincides with the Nash bargaining product (NBP).⁴

Second, a measure of the extent to which, given the other agents’ expected actions, the first player by her/his strategy choice contributes to a fair distribution of material payoffs in terms of the principle T . This may also be put in terms of the extent to which the first player is *responsible* for a fair distribution, given what (s/he expects that) the other player will do. It reduces to a conformity index assuming values from 0 (no conformity at all, when the first player chooses a strategy that minimizes the value of T given his/her expectation about the other’s strategy choice) to 1 (full conformity, when the first player chooses a strategy that maximizes the value of T given the other player’s expected strategy choice).

⁴ The Nash Bargaining Solution may be understood as a formal model for the “social contract” that players would agree in an *ex ante* (possibly hypothetical) collective decision on the rules that should constrain (at least as a matter of “ought”) the allocation of surpluses arising from their interactions (see Sacconi 2000, and Binmore 1998, 2005).

Third, a measure of the extent to which the *other* player is expected to contribute to a fair distribution in terms of the principle T, given what s/he (is expected to) expects from the first player's behaviour. This may also be put in terms of the (expected) *responsibility* of the other player for generating a fair allocation of the surplus, given what s/he (is believed to) believes. This reduces to a reciprocal conformity index assuming values from 0 (no conformity at all, when the other player is expected to choose a strategy that minimizes T given what s/he expects from the first player) to 1 (full conformity, when the other player is expected to maximize the value of T given what s/he expects from the first players) formally identical to the conditional conformity index of the first player .

Fourth, an exogenous parameter λ representing the motivational force of the agent's psychological disposition to act on the motive of reciprocal conformity with an agreed norm.⁵

Steps two and three coalesce in defining an overall index F of conditional and expected reciprocal conformity for each player in each state of the game. This index operates as a weight (again between 0 and 1) on the exogenous parameter λ determining whether or not λ will actually affect (and, if so, to what extent) the player's payoffs. Summing up the effect of the different components, if a player expects that the other player will be responsible for the maximal value of T, given what the other player expects about his/her behaviour, and s/he is also responsible for a maximal value of T, given the other player's (expected) behaviour, then the motivational weight of conformity λ will fully enter his/her utility function. That is, the player's preference system will show all the force of the disposition to conform with agreed norms, so that complying with the principle will yield utility (in the psychological sense) additional to the material payoff of the same strategy.

As a consequence, the overall utility function of player *i* with reference to the state σ (understood as a strategy combination of player *i*'s strategy σ_i and the other players' strategies σ_{-i}), is the following (see appendix 1 for details)

$$V_i(\sigma) = U_i(\sigma) + \lambda_i F[T(\sigma)]$$

where

⁵ This assumption corresponds to Rawls's assumption of a capacity to form a sense of justice derivable from the lower-level moral sentiments.

- i. U_i is player i 's material utility for the state σ ;
- ii. λ_i is an exogenous parameter that may be any positive number and expresses the motivational force of the disposition to comply with an agreed principle or norm;
- iii. T is a fairness principle (assumed to be a *social welfare function* with the specific form of NBS), whose value is defined here for the state σ ;
- iv. F is a compounded index expressing both agent i 's conditional conformity and the other individuals' expected reciprocal conformity with principle T in state σ , given player i 's beliefs of first and second order (i.e. beliefs about the other players' first-order beliefs) predicting that state σ is in fact the case.

4. A reference situation: the Exclusion Game

4.1. Exclusion Game.

Our experimental test of conformist preferences will be carried out in a game of particular interest for understanding the role played by impartial agreements and the desire to conform with it, notwithstanding that private incentives are not conducive to such behavior. We call it the Exclusion Game. This game also provides us with an opportunity to provide a more technical description of the theory.

The intuition underlying this game is a social interaction between strong players and a weak player such that their mutual interaction makes a social surplus affordable, but only the strong players have decision influence over the allocation and distribution of the social surplus, whereas the weak party has neither a voice in this decision nor any retaliation threat at his/her disposal. Strong players can then decide to include the weak player in the fair sharing of the surplus, or alternatively to exclude the weak player and share out the surplus among themselves only by deciding to conform with a principle of fairness given that their personal incentives induce them to exclude the weak players.

In order to give a formal description of the Exclusion Game, we consider a situation (a non-cooperative game) in which two individuals (player 1 and player 2) must decide how to allocate a sum of money R among themselves and a third individual (player 3), who does not have an active role in the allocation decision but whose payoff is determined by the choices made by the two other players (active players). In particular, the active players can choose between two alternative strategies: first, asking for a large share of R , i.e. high demand, $d_i^h = \frac{R}{2}$, which jointly amount to the whole surplus; or second, asking for a small share of R , compatible with a fair distribution of

the surplus, i.e. the low demand $d_i^l = \frac{R}{3}$, with $i = \{1,2\}$. The third player's payoff is the remaining share of R after the two demands of the active players have been met, i.e. $R - (d_1 + d_2)$. For example, in the case of low demand strategies by both the active players, the third player's payoff is $s = R - (d_1^l + d_2^l) = \frac{R}{3}$

Figure 1. The Exclusion Game. Payoff matrix

| | | |
|---------|---|---|
| | d_2^l | d_2^h |
| d_1^l | $\frac{R}{3}, \frac{R}{3}, \frac{R}{3}$ | $\frac{R}{3}, \frac{R}{2}, \frac{R}{6}$ |
| d_1^h | $\frac{R}{2}, \frac{R}{3}, \frac{R}{6}$ | $\frac{R}{2}, \frac{R}{2}, 0$ |

As shown in figure 1, if both the active players decide to ask for half of the total sum R (high demand strategies), the third player's payoff is zero; if one of the two active players decides to ask for only one third of R, while the other one chooses to ask for half of R, the third player's payoff is R/6. An equal division of R among all the players - including the dummy third player - (R/3 each) results when players 1 and 2 ask for only R/3.

Given the assumption that player 3 is *dummy*, in that we maintain that the players are motivated only by the intent to maximize their material payoffs, the only equilibrium in dominant strategies of this game is the one in which both active players choose to ask for $d^h = \frac{R}{2}$. Thus, the Exclusion Game played by self-interested players will induce the exclusion of the player with no influence on the allocation decision.

Now suppose that, before playing the game, the three players can agree on a fairness rule about how to play the exclusion game. Suppose also that they know that they will later play the exclusion game, but they are not aware of the roles that they will perform in it. Thus the three players have to choose, behind a veil of ignorance, what is the right way to play the exclusion game. Our key question is this: after having chosen a rule, would the players assigned an active role decide to implement the rule even if it dictated an action contrary to the maximization of

their personal payoff (like the inclusion strategies in the exclusion game). And if we observe compliance with this norm, how can we explain it?

4.2. Exclusion game under conformist preferences and reciprocity.

In order to apply the theory of conformist preferences to the Exclusion Game, we must first re-describe states of affairs resulting from the game in terms of their consistency with the ideal of fairness. Assuming that in a pre-play phase the *three* players have the opportunity to agree on a distributive principle *which involves all of them*, we can formalize the agreed principle of fairness T as the Nash social welfare function (or Nash product):

$$(6) \quad T(\sigma) = \prod_{i \in I} (U_i(\sigma) - c_i)$$

where c_i , which represents the reservation utility that players can obtain when the process of bargaining breaks down, is assumed to be equal to zero for each player..

On applying the Nash product to the states resulting from the possible plays of our game, we obtain the following fairness ordering of the four strategy combinations

$$(7) \quad d_1^l d_2^l > d_1^b d_2^l = d_1^l d_2^b > d_1^b d_2^b$$

based on

$$(8) \quad T^{MAX}(d_1^l, d_2^l) = \left(\frac{R}{3} \cdot \frac{R}{3} \cdot \frac{R}{3} \right) = \frac{R^3}{27}$$

$$T(d^h, d^l) = T(d^l, d^h) = \frac{R}{3} \cdot \frac{R}{2} \cdot \frac{R}{6} = \frac{R^3}{36}$$

$$T^{MIN}(d^h, d^h) = N(d_1^h, d_2^h) = \frac{R}{3} \cdot \frac{R}{3} \cdot 0 = 0$$

We can use these values to compute the overall utility values on the basis of the conformity indexes for each pair of actions and for the relative beliefs (Figure 2). In this new context the appropriate notion of equilibrium is that of *Psychological Nash Equilibrium* (Geanakoplos et al.,

1989⁶), which is an extension of the Nash equilibrium for situations in which expectations enter the player's utility function.

| | | |
|---------|--|----------------------------|
| | d_2^l | d_2^h |
| d_1^l | $\frac{R}{3} + \lambda_1, \frac{R}{3} + \lambda_2$ | $\frac{R}{3}, \frac{R}{2}$ |
| d_1^h | $\frac{R}{2}, \frac{R}{3}$ | $\frac{R}{2}, \frac{R}{2}$ |

Figure 2. Application of the conformist preferences model to the Exclusion Game.
Payoff Matrix.

Accordingly, given the players' utilities defined as functions of their beliefs, we can easily compute the psychological equilibria of the game played by agents with conformist preferences. Strategy combinations that were not Nash equilibria in the basic game can now be defined as psychological equilibria. In particular, (d_1^l, d_2^l) is a psychological equilibrium *once it is granted that the weights λ_i are sufficiently high*:

$$(9) \quad V_1(d_1^l, b_1^1 = d_2^l, b_1^2 = d_1^l) > V_1(d_1^h, b_1^1 = d_2^l, b_1^2 = d_1^h) \Leftrightarrow \lambda_1 > \frac{R}{2} - \frac{R}{3} = \frac{R}{6}$$

$$(10) \quad V_2(d_2^l, b_2^1 = d_1^l, b_2^2 = d_1^l) > V_2(d_2^h, b_2^1 = d_1^l, b_2^2 = d_1^h) \Leftrightarrow \lambda_2 > \frac{R}{2} - \frac{R}{3} = \frac{R}{6}$$

Put otherwise: given the vector of strategies (d_1^l, d_2^l) , every player i 's overall utility from strategy d_i^l - assuming a system of mutually consistent beliefs according to which each player predicts with probability 1 the symmetric strategy d^l by the opponent - is greater than the overall utility gained by deviating to the alternative strategy d_i^h , and this holds simultaneously true for both the active players. In our example this condition is satisfied when the weight of conformist preferences λ_i compensates for the loss of material utility deriving from the decision to comply with the ideal. Under these conditions there exists a psychological equilibrium of the game such

⁶ See also Sacconi and Grimalda (2005b) for details.

that players 1 and 2 choose to ask for the lowest share of the total sum that guarantees an equal distribution of R among all three players. Thus, one of the equilibrium solutions of the psychological Exclusion Game is the effective inclusion of the third inactive party in the sharing of the surplus. In the event that the players have strong preferences for reciprocal conformity with the hypothetical social contract ideal of fairness, and if they have consistent reciprocal beliefs in that regard, a solution may be inclusion, not exclusion.

Note, however, that this strategy combination is not the only equilibrium of the game: also (d_1^h, d_2^h) is a psychological equilibrium when a system of beliefs exists such that both player 1 and 2 predict with probability 1 that nobody will conform with the principle, in that they have higher-order beliefs coherent with this expectation. In particular, if player 1 believes that the opponent will choose the worst action with regard to the moral principle (first-order belief), and if s/he also believes that player 2 believes that 1 will choose the same action (second-order belief), neither the opponent nor player 1 have incentives to respect the moral principle by acting against their material self-interest.

In the following sections, after having introduced the experimental design and procedure (sec. 2), we will show (sec. 3) how this model can be used to formulate predictions about the choices made by subjects involved in the experiment.

5. Experimental design and procedure

The experiment took place at the *Computable and Experimental Economics Laboratory (CEEL)* of the University of Trento and it consisted of ten sessions of 15 subjects, for a total of 150 participants.⁷ Each subject received a show-up fee of € 5 for participation.

We adopted a within-subject design, observing the behavior of the same subjects playing the Exclusion Game under two different conditions: before an agreement on a division rule and after the agreement on a division rule.

In particular, each experimental session was divided into three phases and lasted one hour on average. At the beginning of each phase, one of the experimenters read out the instructions for that specific phase.

In phase 1 the subjects played a version of the Exclusion Game. They were assigned to groups composed of three members. Within each group, subjects were randomly attributed the roles of G1 and G2 and G3. G1 and G2 were invited to play a game in which they had to decide how to

⁷ Participants were all students at the University of Trento (mainly from economics, law and sociology courses), recruited by responding to ads posted in the various departments.

allocate a sum of money ($R = \text{€}12$) between themselves and the third player, who did not have any active role in the game. In particular, active players were able to decide how much of the sum to ask for themselves (d_1, d_2), selecting one of three possible strategies: 25%, 33% or 50% of R . Active players' payoffs corresponded to d_1 and d_2 , while the third player's payoff was $R - (d_1 + d_2)$ (Figure 3).

The subjects played the game three times, in three different rounds. At the beginning of each round, the three roles were randomly assigned to the members of the group. The selection mechanism was designed so that each player was able to take each of the three roles G1, G2 and G3 in turn. The subjects were told that at the end of the experiment the software would extract one of these three rounds at random, and the player's earning for phase 1 would be determined according to the outcome of that round.⁸ The game was played anonymously and subjects were not aware of the previous rounds' outcome. This procedure produced two observations for each player in this phase: his/her choice in the G1 role and his/her choice in the G2 role.

Figure 3. The experimental Exclusion Game. Payoff matrix

| | | G2 | | |
|----|--------|---------|---------|---------|
| | | 3 (25%) | 4 (33%) | 6 (50%) |
| G1 | 3(25%) | 3,3, 6 | 3, 4, 5 | 3, 6, 3 |
| | 4(33%) | 4, 3, 5 | 4, 4, 4 | 4, 6, 2 |
| | 6(50%) | 6, 3, 3 | 6, 4, 2 | 6, 6, 0 |

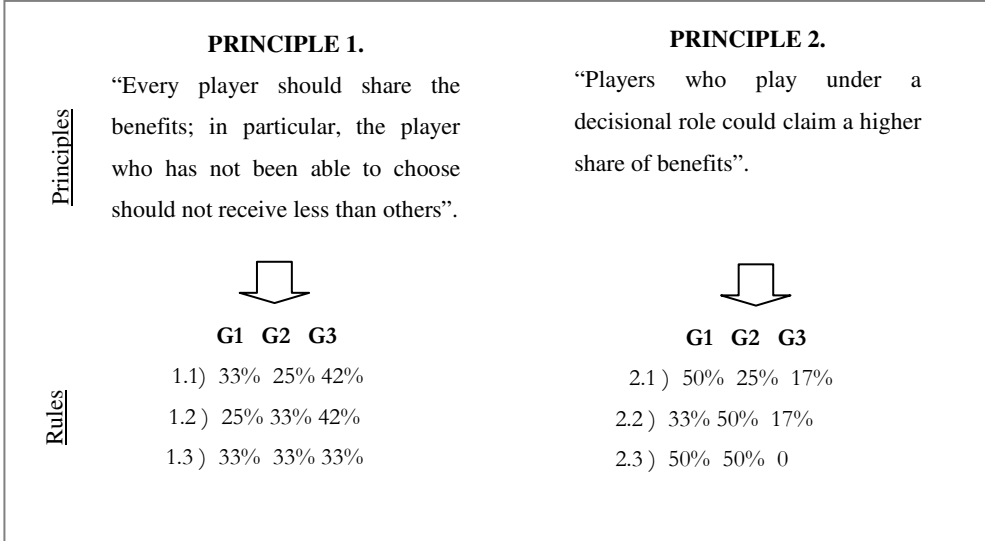
In phase 2 subjects were assigned to new groups consisting of three anonymous members. Without definition of roles, they were invited to agree, by means of a voting procedure, upon an hypothetical rule for the allocation of a sum between two active players and one non-active player. The agreement was to be reached by repeatedly playing the voting procedure until unanimity was reached, within a given limit of trials. No explicit communication, or mutual identification, was allowed among the players of any given group. In particular, after they had been informed that in the following phase they would play a game like the one played in the first

⁸ This is an application of the procedure known as the *random lottery incentive system* (Starmer and Sugden (1991) and Cubitt et al. (1998)). On adopting this procedure, the round in which the subject has played occupying the G1 or G2 role is selected with a probability of $2/3$, which is the same probability of being extracted as G1 or G2 in a one-shot version of the game. Note that, if we look at the third phase of the experiment, using this mechanism we can always compare the choice of each of the players who in that phase have an active role with his/her choice in the first phase.

phase, they were requested to vote for one of two general principles and one among some more specific rules deduced from the selected general principle (Figure 4). Subjects were told that groups which reached unanimous agreement by voting for the same principle within five trials would pass to the voting on the specific allocation rule, upon which the groups had to agree within ten trials. A lack of unanimity after the last of the trials would prevent subjects from entering the third phase.

At the beginning of this phase, the experimenters informed the subjects about the voting procedure, stressing the correspondence between the specific rules and the game strategies of phases one and three. Absolute anonymity was guaranteed and the subjects were not allowed to communicate throughout the procedure.⁹

Figure 4: Second phase. Principles and rules



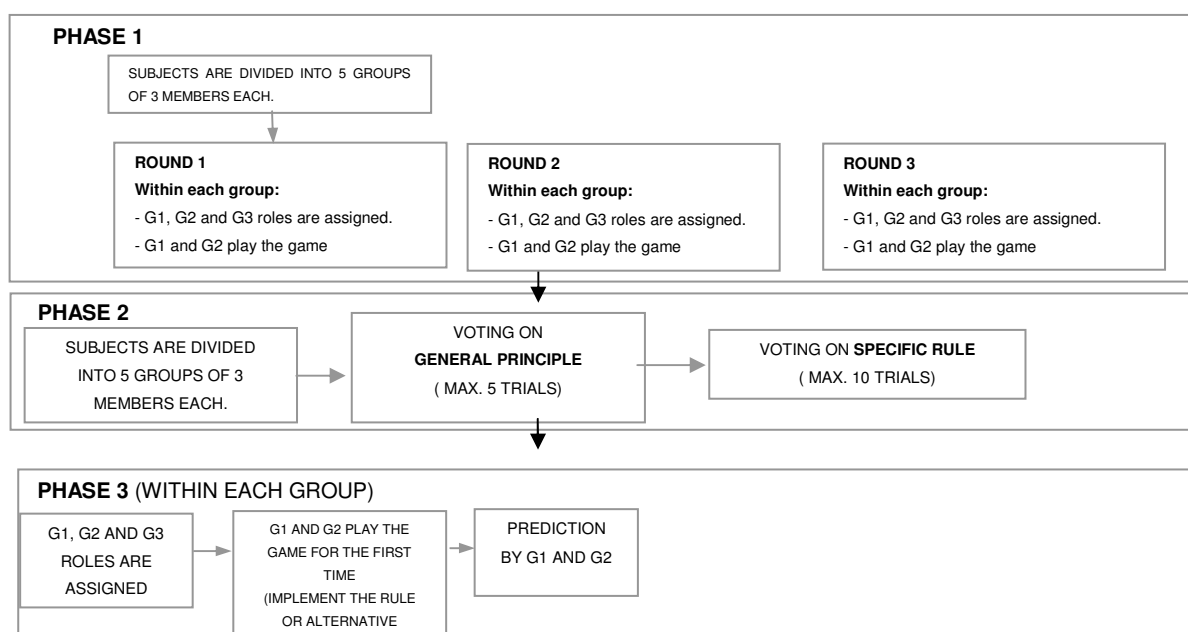
In phase 3, with the composition of the group unchanged, G1, G2 and G3 roles were randomly assigned to the members of each group that had agreed upon a given principle.

The subjects were involved in the same game as in the first phase, but now active players had the additional option of choosing between implementing the rule that they had agreed in the second phase or choosing one of the alternative strategies. If a player decided to implement the rule, then the corresponding strategy would be automatically selected; otherwise the strategy would be

⁹ See Appendix 2 for a detailed description of the voting procedure.

removed from his/her strategy set. Thus, for example, if player i was part of a group that in the second phase had reached agreement on rule 1.2 in figure 4 and if in phase three, when playing the role of G1, s/he decided to implement that rule, then strategy ‘4’ was automatically selected. Immediately after their choice, active players were asked to express their expectations about the opponent’s willingness to implement the rule by guessing the outcome of the game.¹⁰ A scheme of the experimental procedure is given in figure 5.

Figure 5: Experimental procedure



What should we expect the results of the experiment to be if we assume that the players had conformist preferences?

The answer to this question is provided by direct application to our experimental game of the model presented in section 4.¹¹ If $\lambda_1 > 8/3$ then player 1 will prefer strategy ‘4’ to strategy ‘6’, and

¹⁰ We asked the player to indicate the cell of the payoff matrix in which s/he thought the game would end. In this way we avoided explicitly asking for his/her opinion about the opponent’s willingness to conform with the rule.

¹¹ We begin by applying the Nash bargaining function to the outcomes of the game used in experiment (2). The ‘fairness values’ given by the function corresponding to the various states resulting from playing each strategy combination of the game are :

$$T(4,4) = T^{MAX} = 64$$

$$T(3,4) = T(4,3) = 60$$

$$T(3,3) = T(3,6) = T(6,3) = 54$$

$$T(4,6) = T(6,4) = 48$$

the same holds for player 2. Thus the strategy combination (4, 4) is a psychological equilibrium if $\lambda_i > 8/3$ for $i=(1,2)$ and if the players' reciprocal beliefs are coherent with these strategies. But if player 1 believes that player 2 will not choose the strategy that produces the outcome closest to the ideal one, s/he will do the same, choosing strategy '6'. Because the same holds for player 2, the strategy combination (6, 6) is a psychological equilibrium as well. As in the general case illustrated in section 4, the empirical predictions about the solution of the game will depend upon what we can say about the combination of the players' reciprocal beliefs and the absolute weight of the conformist disposition.

In phase 1, players have no information about the type of their opponents, nor they can refer to any pre-existing agreement about the way in which the game should be played. Thus, there is no basis for conformist preferences (there is no agreed principle to comply with nor any reason to expect compliance by the counterpart). Even though the players could in principle have a high level of λ_i , this weight simply remains inactive. We should therefore expect players, even those with a high conformist disposition, to believe that their opponents will choose the strategy that maximizes their own self-material interest, and consequently will ask for € 6 (50% of S).

Prediction 1. *In phase one, the choices of players motivated by conformist preferences will not be different from the choices of self-interested players. We will consequently find that they choose strategy '6'.*

In the second phase players must choose a rule on how to play an hypothetical Exclusion Game that may be played at a later moment. They know that if they are able to agree upon some principle of division, they will be able to play the Exclusion Game later, even though they do not yet know in what role they will play it again. This is a typically constitutional perspective. Such a perspective allows for the choice of general principles and rules on behavior, incorporating a

$$T(6,6) = T^{MIN} = 0$$

Hence, from the conformity indexes attached to each outcome of the game, we can compute the individual comprehensive utility values, assuming that in each state the players' beliefs reciprocally predict exactly the strategy chosen by the opponent. These values are reported in the following matrix:

| | 3 | 4 | 6 |
|---|--------------------------------------|--------------------------------------|-----|
| 3 | 3,3 | $3+(3/4)\lambda_1, 4+(3/4)\lambda_2$ | 3,6 |
| 4 | $4+(3/4)\lambda_2, 3+(3/4)\lambda_1$ | $4+\lambda_1, 4+\lambda_2$ | 4,6 |
| 6 | 6,3 | 6,4 | 6,6 |

view of fairness. According to a contractarian approach to the constitutional choice of principles, players will assume an impartial perspective: that is, they will judge the outcomes of the game from the point of view of each of the three roles in turn, and then choose a principle and a rule acceptable from whichever point of view. This implies a solution that must be invariant to the permutation of the individual points of view, that is, equal distribution of the surplus - if it is available within the payoff set - given what is claimed as baseline by every player in the constitutional choice. Note that within the “cooperative payoff space” defined by the Exclusion Game, rational bargaining according to the Nash bargaining solution would select the ‘equal division’ outcome (in coherence with the ‘invariance to symmetries’ and the Pareto postulates, granted that the *status quo* is zero).

In this setting, ‘equal distribution’ is also an intuitively obvious choice, i.e. one with high ‘salience’. Given that agreement in this phase is a necessary condition for accessing the third phase, players may vote for the most salient rule to co-ordinate their choices in a limited number of trials. Salience, of course, may depend on the simplicity of the symmetric distribution; on the other hand, cognitive simplicity may also be connected to the fairness of equal division. Whether the cognitive simplicity or the intuitive fairness of a symmetric distribution comes first is difficult to say. We are here tempted to say that the cognitive and ethical features of symmetry are quite interlocked.

However, we must point out that available to conformist players in this step is also an agreement on ‘the powerful players get all the pie’ principle which, its crudeness notwithstanding, is a possible second principle of division. Hence, we cannot uniquely predict that conformist players will choose the equal division principle. Conformity enters the picture only when a principle has been chosen in the constitutional phase, whereas the nature of the specific principle chosen depends on proper understanding of the contractarian nature of the constitutional phase, which is independent of conformity *per se*. (We might say that also a constitutional choice of the “egoist” principle, even though it may reflect a misunderstanding of the symmetry of the contractarian choice, once it had been made and conformed with, would be consistent with the model of conformist preferences). Thus, from our normative model of the constitutional nature of the decision phase on principles, we can only predict that the equal division principle will have some intuitive force. Note that this is also a methodological necessity if the experiment is to be able effectively to test the hypothesis of conformist preferences. In fact, if conformist players - who in the first step decided to act out of their simple self-interest - decide in the second step only to agree on “the powerful take all the pie” principle, and then decide to comply with this principle,

then no evidence of change in the players' behaviors may be observed through the experiment, since self-interest and conformity would dictate the same behavior. No falsification of the conformist hypothesis could thus be provided. On the other hand, if a significant share of the players who made a selfish choice in the first phase subscribe to an equal division principle in the second phase, then we have a clear empirical benchmark¹² against which conformist theory can be tested. We need simply determine whether the mere fact of a 'constitutional' agreement on rules - which gives the opportunity to play a beneficial division game again at phase two - is able to activate motivational forces that will induce players to conform with the agreed principle (granted that players have the appropriate beliefs), changing their conduct with respect to how they behaved in the first phase.¹² Thus, our second prediction is crucial to the falsification power of our experiment.

Prediction 2. *In phase two, a rule that assigns equal payoffs to all the players will be chosen by a significant proportion of the participants.*

Assume that the players have now reached phase three. Hence they must have been able to agree on the same principle and rule. If this is enough for them to believe that a chosen principle and rule will also be played by the other players who have agreed on the same principle and rule, then their reciprocity-based conformist preferences will be activated (both deviations from conformity indexes are close to zero), granted that exogenous weights attached to non material motivations are significant. Hence, a conformist player will comply with the principle and the rule. If we hypothesize that the exogenous weight of conformist motivation is a psychological feature widespread in the population, and granted that we predict that a significant proportion of the players will have chosen an equal division rule, then we must expect a significant number of them to choose strategy '4'. What is most important, however, is that, if the players are conformist, we must expect the largest part of those who agreed on the equal division principle and rule to comply with the rule in the third phase, if we have some evidence that they believe that the rule will be followed by the others.

¹² Note that this implies that only a subset of the observations consistent with the theory may have crucial discriminating force amongst different theoretical hypotheses on rational action, and we are mainly interested in producing exactly this kind of evidence. This would also have justified us in placing somewhat more stress on the ethical nature of the second-phase decision in order to test the level of conformism in the third phase.

Prediction 3. *Players with conformist preferences who (having agreed on a rule) predict an outcome of the game compatible with a belief about the opponent’s willingness to implement the agreed rule, will implement the rule as well.*

Prediction 4. *Given predictions 2 and 3, a significant number of players (with conformist preferences) will request ‘4’. Moreover, players with conformist preferences) who behaved according to prediction 2 and satisfy prediction 3, will request ‘4’ in the third phase.*

6. Results

6.1 Choices in phase 1 and phase 3.

We begin with a general description of the subjects’ choices in phases 1 and phase 3. In order to be clear, let us recall that each subject plays two *rounds* of the game in phase 1 (once in the G1 role and once in the G2 role), and then (if s/he is not selected to be a dummy player) s/he again plays the basic game in phase three.

Thus, for each subject we have data on: his/her choice in the G1 and G2 role in phase 1; the rule selected; (if active) his/her choice in phase 3; and his/her expectations about the opponent’s willingness to implement the rule.

Considering all the 150 subjects involved in the ten sessions we observe that in the first phase a large majority of players (59.3%) choose to ask for € 6 when playing in both the G1 and G2 roles, leaving nothing for the third player (Table 1).

Table 1: Choice in phase 1 (n=150)

| Choice* (€) | Obs. | % |
|-------------|------|---------|
| 3-3 | 0 | 0.00% |
| 3-4 | 1 | 0.67% |
| 4-3 | 4 | 2.67% |
| 4-4 | 15 | 10.00% |
| 4-6 | 20 | 13.33% |
| 6-4 | 20 | 13.33% |
| 6-6 | 89 | 59.33% |
| 3-6 | 1 | 0.67% |
| 6-3 | 0 | 0.00% |
| | 150 | 100.00% |

* The two numbers represent the choices made in the G1 and G2 roles respectively.

Less than one third of the subjects made different choices in the two symmetrical roles G1 and G2, choosing to ask for € 6 as G1 (G2) and € 4 as G2 (G1).

Jumping for a moment to phase three, some players were assigned the role of the dummy player. As a consequence, because they never played during this phase, their choice cannot be compared with their choice in the first phase. Hence, if we want to compare the results of phase one and phase three, we must limit our analysis to the 100 subjects that played in G1 or G2 in this phase. A striking difference emerges with respect to the distribution of choices in phase 1: now 44 out of the 100 subjects choose to ask for € 4, while 56 choose to ask for €6. See table 2 for a more detailed description of how the choices change when moving from phase 1 to phase 2.

Table 2: Active players' choices in phase 1 and phase 3 : a more detailed view (n=100)

| | | phase 3 | | |
|------------------|-----|-----------------------|-----------------------|------------|
| | | Choose to ask for € 4 | Choose to ask for € 6 | |
| phase 1 * | 3-4 | 1 | 0 | 1 |
| | 3-6 | 1 | 0 | 1 |
| | 4-3 | 1 | 1 | 2 |
| | 4-4 | 10 | 2 | 12 |
| | 4-6 | 4 | 7 | 11 |
| | 6-4 | 5 | 7 | 12 |
| | 6-6 | 22 | 39 | 61 |
| TOT | | 44 | 56 | 100 |

* The two numbers represent the choices made in the G1 and G2 roles respectively.

To test whether there is a difference between the choices in phase 1 (before the agreement on the rule) and those in phase 3 (after the agreement on the rule) we can look at the choices of phase 1, distinguishing between an equity oriented choice (E-choice) corresponding to the choice “ask for € 4 at least once, but never ask for € 6” and a more self-interest-oriented choice (S-choice) corresponding to choice “ask for € 6 at least once”. We can introduce the null hypothesis that the number of subjects that make an E-choice in phase 1 and ask for € 6 in phase 3 is the same as the number of subjects who make an S-choice in phase 1 and ask for €4 in phase 3. On looking at the joint distribution of frequency (Table 3), we can reject the null hypothesis that the probabilities of being in cells [S-choice, ask for € 4] and [E-choice, ask for € 6] are the same (McNemar’s Chi-squared =22,4 df=1, p-value=2.214e-06).

Table 3. E-choice and S-choice in phase 1 and choice in phase 3. (obs.)

| | | Phase 3 | | |
|---------|----------|-------------|-------------|-----|
| | | Ask for € 4 | Ask for € 6 | |
| Phase 1 | E-choice | 12 | 3 | 15 |
| | S-choice | 32 | 53 | 85 |
| | TOT | 44 | 56 | 100 |

What is the role of the agreed principle and rule in explaining the difference between subjects' choices in phase 1 and phase 3? Let us begin with a brief description of the choice and the implementation of alternative rules.

6.2 Choice and implementation of the division rules

Inspection of the data in phase 2, when subjects were requested to agree on a principle and a division rule, shows that, considering all the 50 groups:

- 32 groups (96 subjects) chose principle 1 and rule (33%, 33%, 33%),
- 15 groups (45 subjects) chose principle 2 and rule (50%, 50%, 0%)
- 2 groups (6 subjects) chose principle 2 and rule (50%, 33%, 17%)
- 1 group (3 subject) chose principle 2 and (33%, 50%, 17%).

Unanimity on a general principle for each group was reached within a maximum of four trials (one case), with a large majority of groups reaching agreement in the first trial. The maximum number of trials required to reach unanimous agreement on a specific division rule was nine (one case), but most groups did not go beyond the second trial.

With regard to active players,

- 43 of the 64 who chose the (33%, 33%, 33%) rule decided to implement it in phase 3.
- Rule (50%, 50%, 0%) was implemented by 29 of the 30 active players belonging to the groups that selected that rule (see Table 4).

In phase 3, almost all the players that implemented the rule predicted an outcome of the game compatible with reciprocal conformity. On the other hand, many of the players who decided not to conform with the rule predicted that their opponents would do the same. 74% of subjects

made correct predictions about the willingness of the opponent to conform with the rule. For a detailed description of the dynamics of subjects' choice see appendix 3

Table 4. Active payers. Rule implementation (N=100)

| | | First time | |
|----------|------------------|------------------|--|
| Rule | | Choice (obs.) | Expect the same choice by the opponent (obs.) |
| 33-33-33 | Implement | 43 | 42 |
| | Do not implement | 21 | 16 |
| | TOT | 64 | |
| | | | |
| 50-50-0 | Implement | 29 | 28 |
| | Do not implement | 1 | 1 |
| | TOT | 30 | |
| | | | |
| 33-50-17 | Implement | 1 | 0 |
| | Do not implement | 1 | 0 |
| | TOT | 2 | |
| | | | |
| 50-33-17 | Implement | 2 | 2 |
| | Do not implement | 2 | 1 |
| | TOT | 4 | |

6.3 The effect of the agreed rule on subjects' choice.

To assess the relative effect of the agreed rule and of subjects' beliefs about their opponents' likelihood of asking for € 4 in phase three, we estimated the following probit regression model:

$$\Pr(\text{Choice3} = 1) = \Phi(\alpha_1 \text{Rule} + \alpha_2 \text{Choice1} + \alpha_3 \text{Belief})$$

in which the dependent variable *Choice3* is equal to one if the choice in phase 3 is “ask for € 4” and equal to zero if the choice in phase 3 is “ask for € 6”; *Rule* is a dummy variable which assumes value zero when the rule dictates “ask for € 6” and one when the rule dictates “ask for € 4”; *Choice1* is the average of the two choices in phase 1, and *Belief* is a dummy variable which assumes value one if the player believes that his/her opponent has asked for € 4 and zero if she expects that the opponent has asked for €6.

Both the variables *Rule* and *Belief* have a positive and significant effect on the likelihood of choosing €4. In particular, having agreed on the ‘ask only for € 4’ rule and expecting the opponent to choose to implement the rule increases the likelihood of choosing to ask for € 4 in phase 3. The effect of the choice in phase 1 is not significant (Table 5).

Table 5. The determinants of choice in phase 3. (Probit Estimate)

| | |
|-----------------------|--------------------|
| Rule | 1.74 (0.757)** |
| Choice1 | -0.27 (0.295) |
| Belief | 2.75 (0.534)*** |
| Constant | -1.77 (1.81) |
| Pseudo R ² | 0.690 |
| Prob > χ^2 | 0.0000 |
| Number of obs. | 100 |

Legend. Dependent variables?: *Choice3* dummy, taking the value of one if the subject chooses to ask for €4 in phase 3 and zero otherwise. *Choice1*: average amount asked in the two choices of phase1. *Rule*: dummy, which takes value one if the subject has agreed on a rule dictating ‘ask for €4’ and 0 otherwise. *Belief* dummy, which takes value one if the subject believes that his/her opponent has asked for € 4 in phase 3 and zero otherwise.

** significant at 5%; *** significant at 1%; Standard errors in brackets

7. Discussion and conclusions

We can summarize our results by saying that at least one third of the players who were always active and asked for 6 euros in at least one of the rounds of the first phase were motivated by conformist preferences, while the remaining subjects can be identified as being either self-interested or conformist. In particular, with respect to our empirical predictions:

- i) The observation that most players chose strategy ‘6’ in both the rounds of the first phase is consistent with prediction 1.
- ii) The fact that, in the second phase, a large number of players agreed on the (33%, 33%, 33%) rule is consistent with prediction 2.

- iii) For a significant number of subjects, having agreed on a rule seems to have been sufficient reason to generate expectations about reciprocal conformity.¹³ This is consistent with our consideration concerning the “salience” of the fair solution and knowledge of its salience, so that any rational player, in the absence of evidence to the contrary, will predict that a similar opponent will be induced to act upon the same solution that s/he has chosen.
- iv) There is a close correlation between a player’s belief about the opponent’s willingness to conform with the rule and his/her decision to implement it; in particular, those who predict compliance with the rule (33%, 33%, 33%) will in fact choose strategy ‘4’ (prediction 3).
- v) A *significant* number of those players who egoistically chose strategy ‘6’ in at least one of the rounds of the first phase and who agreed on the rule of equal division in phase two, decided to implement the rule in phase three; and these are definitely *most* of those who, having acted as just described, believed that the agreed rule would have been played by their counterpart. All this is in accordance with prediction 4.

The significant shift in the players’ behavior in the transition from phase one to phase three is strictly consistent with the hypothesis that, because these subjects realized that the constitutional nature of the choice in phase two asked for a fairness principle of conduct incompatible with their behavior in phase 1, the mere fact of having agreed on that principle activated their conformist motivation to conform with it, granted that they believed that the same principle was being complied with by the counterparties. Notice that, whereas the players who changed their behavior crucially corroborate the theory, also most of players that exhibited the same behavior in phases one and three (given their choice in phase two and their beliefs) are consistent with the theory (i.e. do not provide any anomaly to the model). This cannot be said for concurrent models, which cannot explain our data. With regard to these alternative theories, in fact, we can conclude that:

- a) Models of inequity-aversion (Fehr and Schmidt, 1999) fail to explain the observation of different behaviors in phase one and in phase three by the same subjects. Why should the subjects be inequity averse in the third phase if they were not so motivated in the first? This

¹³ This hypothesis is supported by the replies to the debriefing questionnaire.

finding may be explained within the “inequity-aversion” framework by saying that the introduction of phase two, modeled as a constitutional choice, induced a change in the definition of the reference group whereby subjects that in the first phase did not consider the payoff of the dummy as relevant instead included it in the third phase. However, this explanation would make the inequity-aversion approach closely akin to the conformist preference model, where players that consider the advantage connected to the constitution of a social union (that is, the advantage of being allowed to play the game because of agreement on a rule) develop the motivational basis for a change in their behavior (but consider that we found that players’ actions also depended on their beliefs concerning the reciprocity of the counterpart, an aspect that does not have any significant role in the inequity-aversion model).

b) ‘Direct reciprocity’ models, or reciprocity models based on ‘direct kindness’ (Rabin, 1993, Falk and Fischbacher, 2001) fail to predict the dramatic change in the behavior pattern shown by subjects between the first phase, when it in fact accords with the direct kindness prediction, to the third one, when it diverges substantially from it. Note that dummy players did not change their status during the process that took the player from phase one to phase three (i.e. in the last step there were still dummy players), and they could not manifest a direct attitude or intention toward the active players since they simply did not make decisions. Nevertheless, having a rule in mind – one that has been agreed even if it is not binding or exogenously enforced – seems to be enough to change the players’ behavior significantly. This suggests that some sort of commitment to the principle itself, and beliefs concerning reciprocal conformity with it, has motivational effects. Quite paradoxically, in the situation under experimentation ‘fairness’, understood according to Rabin’s model as direct reciprocity between the two active players, would imply discrimination against the weak player, and would result in a behavior completely indistinguishable from the conduct that shares all the pie amongst the strong players. Players who are fair according to our model act against ‘fairness’ in Rabin’s sense, and would elicit a punitive response from the other players if Rabin’s model were true.

c) Last, let us explain how our experiment is consistent with a Rawlsian perspective on norm compliance. The participants in the experiment were young people (students at the University of Trento), who had grown up in the context of a nearly well-ordered society, wherein they had experienced the functioning of at least some lower-level nearly-just institutions like the family, associations and the like. Through these experiences they had developed – to some extent - the

capacity to form a sense of justice (in our model represented by the extent of the parameter λ). Despite this fact, when confronted with the exclusion game for the first time, they still did not perform the mental experiment of an impartial justification of whatever solution, and hence they acted according to their self-interest. When the second stage was reached, however, the subjects performed the experiment of being put under a veil of ignorance in order to agree on a principle and rule of distributive justice, with the simple cooperative intent of giving each of them the chance to participate again in the same non cooperative game. Agreeing on a principle/rule is similar to taking part in a constitutional decision. The constitution mattered to the participants not so much because it provided binding commitments but more simply because it gave a chance to participate in a potentially mutually beneficial game only by reaching an anonymous agreement on the principle/rule. Once the agreement had been stipulated, they were fully free to violate it, but they were also in the position to benefit from each another in so far as the agreement gave an opportunity to play the exclusion game again.

At the third stage in the experiment, the subjects entered a situation that Rawls would have recognized as a well-ordered society decision case wherein, because they had developed the capacity to form a sense of justice, they should have been able to comply with principles of justice agreed under the veil of ignorance. We then can check whether the experiment conveys evidence favorable to the idea of a sense of justice or - in other words - whether the experiment satisfied Rawls's hypothesis (see section 2) and engendered behavior consistent with the idea of the emergence of a sense of justice.

Consider the players who agreed on the egalitarian principle/rule (33%,33%,33%). All of them, within their own group, knew that the others had made the same choice, i.e. under a Rawlsian interpretation that they all justified the same course of action under a veil of ignorance. In fact, they took no more than a very few vote rounds to agree on that principle/rule in stage two.

What about the shared knowledge that the opponents' effective behavior is beneficial to each single member of the group which is necessary in order to elicit reciprocity? At this point players could not rely on the evidence of a long past history of norm compliance. Nevertheless, most of those who agreed on an egalitarian principle/rule (33%,33%,33%) also believed that their opponents would conform. This suggests that the agreement under a veil of ignorance may by itself have a strong causal effect on shaping reciprocal expectations.

This was not implicit in the conformist preference model, but is a natural consequence of the veil of ignorance reasoning format, which accords with the idea of default reasoning, and receives surprisingly strong evidence from the experiment. In order to make sense of this fact, it is

important to realize that there is no logical necessity in the inference from the ex ante agreement to the expectation of *de facto* compliance by other participants in the stage two agreement. On the contrary, this involves a cognitive mechanism known as *default* reasoning (Reiter 1980, Bacharach 1994, Sacconi and Moretti 2008). The idea is simply that if each player has actually adopted an unanimous impartial agreement in the ex ante perspective, then s/he will acquire at least the *mental model* of a decision maker who acts in accordance with a plan whose content coincides with the terms of the agreed course of action. Agreeing on a set of actions to be carried out later implies having a mental representation of an agent carrying out a plan of action - which is simply the content of the statement of agreement.

A normally rational agent cannot fail to have this mental model because it is derived from introspection, and because the player him/herself is an exemplar of an agent who has planned to act in accordance with the content of the statement of agreement later on. But then consider that mental models are necessarily used in order to figure out possible situations and predict them. And hypothesize that at this point in time no mental model of a rational agent ‘comes to the players’ mind’ (see Bacharach 2006) other than that of an agent who *will act according to the content of the agreement*. If no contrary evidence is forthcoming, the only way an agent can simulate the other players’ choice is to resort by default to his/her own mental model of a rational agent. By default, then, the same mental model is used to simulate every players’ reasoning and behavior. This simulation may be recursive, so that a player uses his/her mental model not only to predict another player’s behavior but also in order to simulate the other player’s reasoning and beliefs, so that a *shared mental model* of all the rational agents is such that they are all expected to conform with the terms of agreement.

This explains - if not logically justifies - why the agent (as long as there is no proof to the contrary) may frame the case as a situation wherein agents conform with the norm. The ex ante agreement on a principle of fairness allows by default the formation of a prior belief that the propositional content of the mental model representing an agent discharging his/her commitments to an agreement is true. Just after the agreement there is no evidence that any player will not conform, whereas there is the intuitive evidence of the mental representation of an agent who agrees to a principle and hence expresses at least at that point in time the commitment to carry out a certain behavior later on. Although it would be excessive to say that this completely resolves the players’ prior uncertainty, it explains how, after an agreement has been worked out – in so far as it is understood as being a constitutional, fair, initial (*ab origine*) agreement under the ‘veil of ignorance’ - the model of a compliant agent ‘comes to their minds’ with most *vividness*.

The result is that also the fourth condition for a “sense of justice” is satisfied in the case of the groups choosing rule (33%,33%,33%): not only were their members capable of it, they agreed on a principle of justice under the veil of ignorance and had shared knowledge that they all agreed, but they also had the shared belief that they were behaving in such a way that they were impartially beneficial to each other. It follows that, if Rawls is right, those subjects who satisfied these assumptions – those who belonged to the group choosing rule (33%,33%,33%) - should show the formation of a sense of justice sufficiently strong to induce them to comply with the rule chosen. Which in fact was verified by our experimental evidence.

REFERENCES

- Bacharach, M. (1994), "The Epistemic Structure of a Game", *Theory and Decisions*, 37,7-48.
- Bacharach, M. (2006), *Beyond individual choice: teams and frames in game theory*, Princeton: Princeton University Press.
- Bicchieri, C. (2006), *The Grammar of Society: The Nature and Dynamics of Social Norms*, Cambridge U. P. , Cambridge.
- Binmore, K. (1998), *Playing fair*, MIT Press, Boston
- Binmore, K. (2005), *Natural Justice*, Oxford U.P., Oxford
- Bolton, G. E. (1991) A Comparative Model of Bargaining: Theory and Evidence", *American Economic Review* 81, 1096-1136.
- Bolton, G. E. and Ockenfels, A. (2000). "A theory of Equity, Reciprocity and Competition". *American Economic Review* 100, 166-193.
- Cubitt, R. Starmer, C. and Sugden, R. (1998). "On the Validity of the Random Lottery Incentive system", *Experimental Economics* 1: 115:131.
- Danielson, P. (1992) *Artificial morality, Virtuous Robot for virtual games*, Routledge, London
- Faillo, M. and Sacconi, L. (2007), "Norm Compliance: The Contribution of Behavioral Economics Theories", in Innocenti, A. and Sbriglia, P. (eds.), *Games, Rationality and Behaviour, Essays in Behavioural Game Theory and Experiments*, , Palgrave-MacMillan, London.
- Falk, A. and Fischbacher, U. (2001). *A Theory of Reciprocity*, Institute for Empirical Research in Economics Working Paper No. 6.
- Fehr, E. and Schmidt, K. M. (1999), "A Theory of Fairness, Competition and Co-operation", *Quarterly Journal of Economics* 114, 817-868.
- Gauthier, D. (1986), *Morals by Agreement*, Oxford Clarendon Press, Oxford
- Gauthier, D. (1994), "Commitment and Choice: An Essay on the Rationality of Plans" in F.Farina, S.Vannucci and F.Hahn (eds.) *Ethics, Rationality, Economic Behavior*, Oxford U.P. Oxford.
- Gauthier, D. (1990), "Economic Man and the Rational Reasoner", *From Political Economy and Back?*, J.H. Nicols and C.Wright eds. ICS Press, San Francisco.
- Geanakoplos, J., Pearce, D. and Stacchetti, E. (1989) "Psychological Games and Sequential Rationality", *Games and Economic Behavior*, 1, 60-79.
- Grimalda, G. and Sacconi, L. (2002), *The constitution of the no profit enterprise, ideals, conformism and reciprocity*. University Carlo Cattaneo - LIUC paper n.155.

- Grimalda, G. and Sacconi, L. (2005). "The Constitution of the Not-for-Profit Organization: Reciprocal Conformity to Morality" *Constitutional Political Economy* 16(3), 249-276.
- McClennen, E. (1990) "Foundational Exploration For an Normative Theory of Political Economy", *Constitutional political economy*, vol. 1, No. 1, 67-99
- McClennen, E. (1990), *Rationality and Dynamic Choice*, Cambridge UP, Cambridge.
- McClennen, E. (1993), "Rationality Constitutions and the Ethics of Rules" , *Constitutional political economy*, vol.4 , No. 2, 94-118.
- Rabin, M. (1993), "Incorporating Fairness into Game Theory and Economics." *American Economic Review* 83(5),1281-1302.
- Rawls, J. (1971), *A Theory of Justice*, Oxford U.P: Oxford.
- Reiter R. (1980), "A Logic for Default Reasoning" , *Artificial Intelligence*, 13, 81-132.
- Sacconi, L. and Faillo, M. (2005), *Conformity and Reciprocity in the "Exclusion Game": An Experimental Investigation*, Discussion Paper No. 12/05. Department of Economics University of Trento.
- Sacconi, L. and Grimalda G. (2007), "Ideals, conformism and reciprocity: A model of Individual Choice with Conformist Motivations, and an Application to the Not-for-Profit Case", in Bruni L., Porta P.L. (eds.) *Handbook of Happiness in Economics*, Edward Elgar: London
- Sacconi, L. and Moretti S. (2008), "A Fuzzy Logic and Default Reasoning Model of Social Norms and Equilibrium Selection in Games under Unforeseen Contingencies". *International Journal of Uncertainty, Fuzziness and Knowledge Based Systems*, Vol. 16, No. 1, 59-81.
- Starmer, C. and Sugden, R. (1991), "Does the Random-Lottery Incentive System Elicit True Preferences? An Experimental Investigation". *American Economic Review*, 81, 971-978.

Appendix 1: the conformist preference model

This appendix illustrates how the concepts presented in section 3 are translated into a formal model.¹⁴ Let $G = \{I, S, U\}$ be a normal form game, where I is the set of players, $S = \times_{i \in I} S_i$ is the set of players' feasible strategy profiles, and U is the set of vectors of utilities. Let us define $\Sigma_i := \Sigma(S_i)$ as the set of possible randomization over the players' strategy sets and $\Sigma_i := \times_{i \in I} \Sigma_i$ as the vector including a randomization for each agent, where the generic element is $\sigma \in \Sigma$.

Because $U_i(\sigma)$ is the traditional player i 's "consequentialist" utility function for the strategy combination (the state) σ , we can define the player's *comprehensive utility function* as a linear combination between this function and a function F which is a measure of reciprocal conformity with a principle of fairness T which is the result of an (hypothetical) *ex ante* agreement amongst the players¹⁵:

$$(1) \quad V_i(\sigma) = U_i(\sigma) + \lambda_i F[T(\sigma)] \quad \text{with } \lambda_i \geq 0$$

The weight λ_i is an exogenous psychological parameter that expresses how important the conformist component is within the motivational system of player i (we could call it player i 's 'maximum disposition to act according to conformist reasons', granted that certain conditions do apply).

First the principle of fairness can be formally represented as a function $T : U_i(\sigma) \rightarrow \square$. Second, as far as the function F is concerned, Grimalda and Sacconi define two personal indexes of conformity, which are compounded in a measure of mutual expected conformity. This enters the utility functions of the players in so far as it will influence the weight of the conformist motivation within the individuals' system of preferences. To model these ideas, one needs an extension of the analytical structure of individual preferences derived from Psychological Games (Geneakoplos *et al.*, 1989).

In this construction we assume the point of view of player i (any other player j 's perspective is symmetrical) and we define a first order belief for player i , $B_i^1 := \Delta(\Sigma_{-i})$, as a probability measure over the other players' strategy set. In particular, the generic element $b_i^1 \in B_i^1$ indicates the probability with which i believes that the other players are going to implement the strategy combination σ . Symmetrically, we define $B_{-i}^1 := \times_{j \neq i} (B_j^1)$. Finally, a player i 's second order belief is defined as a conjecture about the beliefs concerning the other players' first order beliefs : $B_i^2 := \Delta(B_{-i}^1)$, with the generic element $b_i^2 \in B_i^2$ being the probability that player i assigns to the fact that the belief of j about i 's strategy is b_i^1 .

If we restrict our analysis to a two-person game, we can define the following two indexes of conformity :

Player i 's personal index of conformity:

This is player i 's degree of deviation from the ideal principle T (which varies from 0 to -1), due to player i 's choice, given his/her expectation about player j 's behavior. It is normalized by the

¹⁴ Grimalda and Sacconi (2002) elaborate on Rabin (1993) in order to define the model of reciprocal conformity.

¹⁵ See Grimalda and Sacconi (2002, 2005) and Sacconi and Grimalda (2007) for details.

magnitude of difference between player i 's full conformity and no conformity at all, conditional on player j 's choice

$$(2) \quad f_i(\sigma_i, b_i^1) = \frac{T(\sigma_i, b_i^1) - T^{MAX}(b_i^1)}{T^{MAX}(b_i^1) - T^{MIN}(b_i^1)}$$

where b_i^1 is player i 's belief concerning player j 's action, $T^{MAX}(b_i^1)$ is the maximum attainable by the function T given i 's belief, $T^{MIN}(b_i^1)$ is the minimum attainable by the function T given i 's belief, $T(\sigma_i, b_i^1)$ is the effective level attained by T when the player adopts strategy σ_i , given his/her belief about the other player's behavior.

Estimation function of the second player's index of conformity with the ideal:

This is player j 's degree of deviation from the ideal principle T (which also varies from 0 to -1), as seen through player i 's beliefs - also normalized by the magnitude of difference between player j 's full conformity and no conformity at all, given what s/he believes (and player i believes that s/he believes) about player i 's choice

$$(3) \quad \tilde{f}_j(b_i^1, b_i^2) = \frac{T(b_i^1, b_i^2) - T^{MAX}(b_i^2)}{T^{MAX}(b_i^2) - T^{MIN}(b_i^2)}$$

where b_i^1 is player i 's *first order* belief about player j 's action (i.e. formally identical to a strategy of player j), b_i^2 is player i 's *second order* belief about player j 's belief about the action adopted by player i (i.e. formally identical to a player i strategy predicted by player j).

These indexes are compounded to construct the following conformist component of the utility function

$$(4) \quad \lambda_i \left[1 + \tilde{f}_j(b_i^2, b_i^1) \right] \left[1 + f_i(\sigma_i, b_i^1) \right]$$

From this formula we may state the following: if player i perfectly conforms with the ideal, given his/her expectation, while player j is also expected to perfectly conform, then the two individual indexes take zero values, so that the resulting utility value due to conformism is λ_i . By contrast, if a player does not entirely conform, while not expecting the other player entirely to conform either, then the two indexes take negative values (possibly -1). Thus the utility calculation for conformist reasons reduces to $(1-x)(1-y)$ (possibly both equal to zero) times the weight λ_i and yields less than λ_i (possibly zero) as the conformist utility value.

The comprehensive utility function V_i , therefore takes the form of the linear combination of the two components, with reference to each state described in terms of both the individual strategy choice and the individual beliefs system concerning the other player's strategy choice (note that in equilibrium beliefs meet choices, so that a belief accurately describes what the other player does)

$$(5) \quad V_i(\sigma_i, b_i^1, b_i^2) = U_i(\sigma_i, b_i^1) + \lambda_i \left[1 + \tilde{f}_j(b_i^2, b_i^1) \right] \left[1 + f_i(\sigma_i, b_i^1) \right]$$

This suggests that if a player predicts reciprocal conformism (so that conformist motivation effectively enters the utility function with weight λ_i), as long as the weight λ_i is high enough, it is possible that the overall utility function reverses the preference for a strategy choice σ_i with

choices of the other members of the group. If the members of some groups did not reach unanimous agreement, the experimenter again distributed the forms to all the subjects.¹⁶ Members of the groups that did not reach agreement were asked to vote again, while the others had to wait. The experimenter collected the forms, checked the votes and repeated the same procedure until all the groups had reached agreement. The maximum number of trials allowed was five.

After the voting for selection of the general principle, new forms like the ones in figures 2a and 3a were distributed. These stated particular division rules deduced from the general principle. Each subject received a form stating the rules deduced from the principle selected in the previous stage. The voting procedure was the same as the one adopted for the principles selections, but the maximum number of trials was now ten.

Figure 2a: Form for the selection of rule deduced from principle 1
 Figure 3a: Form for the selection of rule deduced from principle 2

PRINCIPLE 1

"Every player should share the benefits, in particular, the player who has not the possibility to choose should not receive less than others."

| N | G1 (ACTIVE) | G2 (ACTIVE) | G3 (NOT ACTIVE) |
|---|-------------|-------------|-----------------|
| 1 | 33%(4) | 25% (3) | 42% (5) |
| 2 | 33% (4) | 33% (4) | 33% (4) |
| 3 | 25% (3) | 33% (4) | 42% (5) |

PLAYER'S ID:..... GROUP NUMBER:

| N | Player's own choice | Other players (please do not fill) | | |
|-----|---------------------|------------------------------------|---------------|---------|
| 1. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 2. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 3. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 4. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 5. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 6. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 7. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 8. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 9. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 10. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |

OUTCOME

[1 | 2 | 3 | 4]

PRINCIPLE 2

People who play under a decisional role could claim a higher share of benefits .

| N | G1 (ACTIVE) | G2 (ACTIVE) | G3 (NOT ACTIVE) |
|---|-------------|-------------|-----------------|
| 1 | 50%(6) | 33% (4) | 17% (2) |
| 2 | 33% (4) | 50% (6) | 17% (2) |
| 3 | 50% (6) | 50% (6) | 0%(0) |

PLAYER'S ID:..... GROUP NUMBER:

| N | Player's own choice | Other players (please do not fill) | | |
|-----|---------------------|------------------------------------|---------------|---------|
| 1. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 2. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 3. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 4. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 5. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 6. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 7. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 8. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 9. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |
| 10. | [1 2 3] | [1 2 3] | [1 2 3] | A NA |

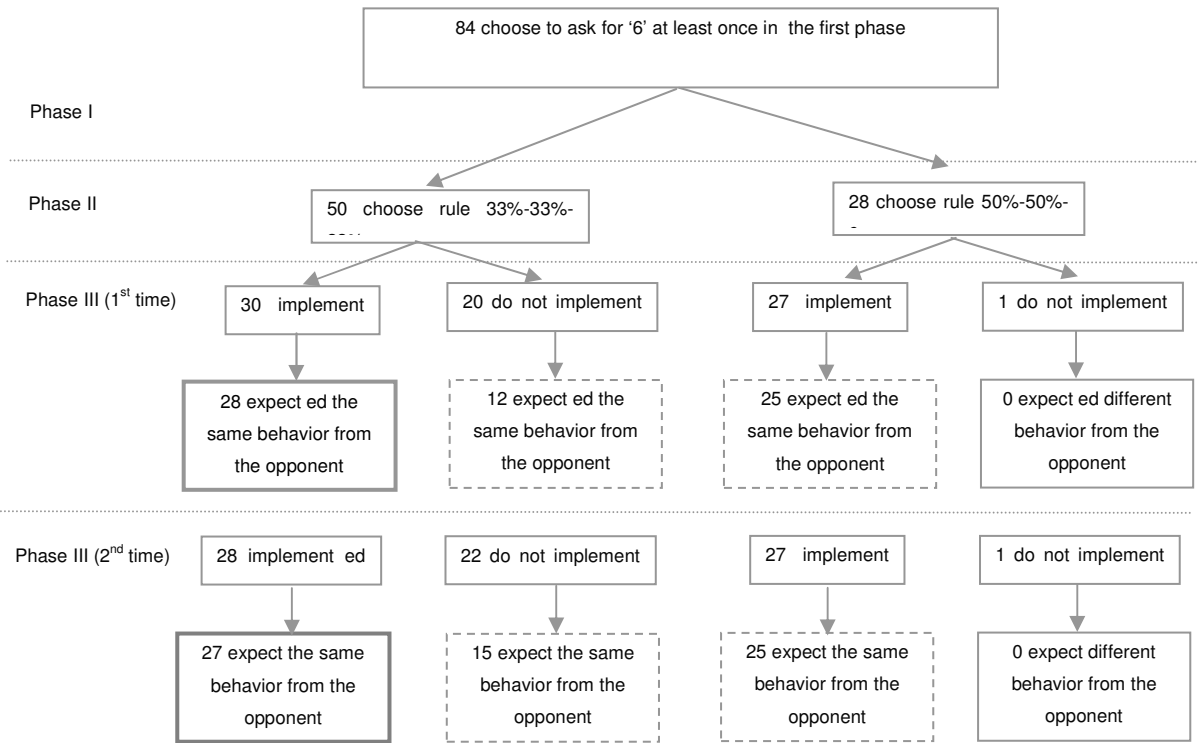
OUTCOME

[1 | 2 | 3]

At the end of the voting procedure, the experimenter inserted the rule selected in a form that appeared on the screen of each subject.

¹⁶ This made it impossible to identify the members of a particular group by exploiting the information about the outcome of the voting procedure.

Appendix 3. The dynamics of subjects' choice



Elenco dei papers del Dipartimento di Economia

- 2000.1 *A two-sector model of the effects of wage compression on unemployment and industry distribution of employment*, by Luigi Bonatti
- 2000.2 *From Kuwait to Kosovo: What have we learned? Reflections on globalization and peace*, by Roberto Tamborini
- 2000.3 *Metodo e valutazione in economia. Dall'apriorismo a Friedman*, by Matteo Motterlini
- 2000.4 *Under tertiarisation and unemployment*. by Maurizio Pugno
- 2001.1 *Growth and Monetary Rules in a Model with Competitive Labor Markets*, by Luigi Bonatti.
- 2001.2 *Profit Versus Non-Profit Firms in the Service Sector: an Analysis of the Employment and Welfare Implications*, by Luigi Bonatti, Carlo Borzaga and Luigi Mittone.
- 2001.3 *Statistical Economic Approach to Mixed Stock-Flows Dynamic Models in Macroeconomics*, by Bernardo Maggi and Giuseppe Espa.
- 2001.4 *The monetary transmission mechanism in Italy: The credit channel and a missing ring*, by Riccardo Fiorentini and Roberto Tamborini.
- 2001.5 *Vat evasion: an experimental approach*, by Luigi Mittone
- 2001.6 *Decomposability and Modularity of Economic Interactions*, by Luigi Marengo, Corrado Pasquali and Marco Valente.
- 2001.7 *Unbalanced Growth and Women's Homework*, by Maurizio Pugno
- 2002.1 *The Underground Economy and the Underdevelopment Trap*, by Maria Rosaria Carillo and Maurizio Pugno.
- 2002.2 *Interregional Income Redistribution and Convergence in a Model with Perfect Capital Mobility and Unionized Labor Markets*, by Luigi Bonatti.
- 2002.3 *Firms' bankruptcy and turnover in a macroeconomy*, by Marco Bee, Giuseppe Espa and Roberto Tamborini.
- 2002.4 *One "monetary giant" with many "fiscal dwarfs": the efficiency of macroeconomic stabilization policies in the European Monetary Union*, by Roberto Tamborini.
- 2002.5 *The Boom that never was? Latin American Loans in London 1822-1825*, by Giorgio Fodor.

2002.6 *L'economia senza banditore di Axel Leijonhufvud: le 'forze oscure del tempo e dell'ignoranza' e la complessità del coordinamento*, by Elisabetta De Antoni.

2002.7 *Why is Trade between the European Union and the Transition Economies Vertical?*, by Hubert Gabrisch and Maria Luigia Segnana.

2003.1 *The service paradox and endogenous economic growth*, by Maurizio Pugno.

2003.2 *Mappe di probabilità di sito archeologico: un passo avanti*, di Giuseppe Espa, Roberto Benedetti, Anna De Meo e Salvatore Espa.
(*Probability maps of archaeological site location: one step beyond*, by Giuseppe Espa, Roberto Benedetti, Anna De Meo and Salvatore Espa).

2003.3 *The Long Swings in Economic Understanding*, by Axel Leijonhufvud.

2003.4 *Dinamica strutturale e occupazione nei servizi*, di Giulia Felice.

2003.5 *The Desirable Organizational Structure for Evolutionary Firms in Static Landscapes*, by Nicolás Garrido.

2003.6 *The Financial Markets and Wealth Effects on Consumption An Experimental Analysis*, by Matteo Ploner.

2003.7 *Essays on Computable Economics, Methodology and the Philosophy of Science*, by Kumaraswamy Velupillai.

2003.8 *Economics and the Complexity Vision: Chimerical Partners or Elysian Adventurers?*, by Kumaraswamy Velupillai.

2003.9 *Contratto d'area cooperativo contro il rischio sistemico di produzione in agricoltura*, di Luciano Pilati e Vasco Boatto.

2003.10 *Il contratto della docenza universitaria. Un problema multi-tasking*, di Roberto Tamborini.

2004.1 *Razionalità e motivazioni affettive: nuove idee dalla neurobiologia e psichiatria per la teoria economica?* di Maurizio Pugno.
(*Rationality and affective motivations: new ideas from neurobiology and psychiatry for economic theory?* by Maurizio Pugno.

2004.2 *The economic consequences of Mr. G. W. Bush's foreign policy. Can th US afford it?* by Roberto Tamborini

2004.3 *Fighting Poverty as a Worldwide Goal* by Rubens Ricupero

2004.4 *Commodity Prices and Debt Sustainability* by Christopher L. Gilbert and Alexandra Tabova

2004.5 *A Primer on the Tools and Concepts of Computable Economics* by K. Vela Velupillai

2004.6 *The Unreasonable Ineffectiveness of Mathematics in Economics* by Vela K. Velupillai

2004.7 *Hicksian Visions and Vignettes on (Non-Linear) Trade Cycle Theories* by Vela K. Velupillai

2004.8 *Trade, inequality and pro-poor growth: Two perspectives, one message?* By Gabriella Berloff and Maria Luigia Segnana

2004.9 *Worker involvement in entrepreneurial nonprofit organizations. Toward a new assessment of workers? Perceived satisfaction and fairness* by Carlo Borzaga and Ermanno Tortia.

2004.10 *A Social Contract Account for CSR as Extended Model of Corporate Governance (Part I): Rational Bargaining and Justification* by Lorenzo Sacconi

2004.11 *A Social Contract Account for CSR as Extended Model of Corporate Governance (Part II): Compliance, Reputation and Reciprocity* by Lorenzo Sacconi

2004.12 *A Fuzzy Logic and Default Reasoning Model of Social Norm and Equilibrium Selection in Games under Unforeseen Contingencies* by Lorenzo Sacconi and Stefano Moretti

2004.13 *The Constitution of the Not-For-Profit Organisation: Reciprocal Conformity to Morality* by Gianluca Grimalda and Lorenzo Sacconi

2005.1 *The happiness paradox: a formal explanation from psycho-economics* by Maurizio Pugno

2005.2 *Euro Bonds: in Search of Financial Spillovers* by Stefano Schiavo

2005.3 *On Maximum Likelihood Estimation of Operational Loss Distributions* by Marco Bee

2005.4 *An enclave-led model growth: the structural problem of informality persistence in Latin America* by Mario Cimoli, Annalisa Primi and Maurizio Pugno

2005.5 *A tree-based approach to forming strata in multipurpose business surveys*, Roberto Benedetti, Giuseppe Espa and Giovanni Lafratta.

2005.6 *Price Discovery in the Aluminium Market* by Isabel Figuerola-Ferretti and Christopher L. Gilbert.

2005.7 *How is Futures Trading Affected by the Move to a Computerized Trading System? Lessons from the LIFFE FTSE 100 Contract* by Christopher L. Gilbert and Herbert A. Rijken.

2005.8 *Can We Link Concessional Debt Service to Commodity Prices?* By Christopher L. Gilbert and Alexandra Tabova

2005.9 *On the feasibility and desirability of GDP-indexed concessional lending* by Alexandra Tabova.

2005.10 *Un modello finanziario di breve periodo per il settore statale italiano: l'analisi relativa al contesto pre-unione monetaria* by Bernardo Maggi e Giuseppe Espa.

2005.11 *Why does money matter? A structural analysis of monetary policy, credit and aggregate supply effects in Italy*, Giuliana Passamani and Roberto Tamborini.

2005.12 *Conformity and Reciprocity in the "Exclusion Game": an Experimental Investigation* by Lorenzo Sacconi and Marco Faillo.

2005.13 *The Foundations of Computable General Equilibrium Theory*, by K. Vela Velupillai.

2005.14 *The Impossibility of an Effective Theory of Policy in a Complex Economy*, by K. Vela Velupillai.

2005.15 *Morishima's Nonlinear Model of the Cycle: Simplifications and Generalizations*, by K. Vela Velupillai.

2005.16 *Using and Producing Ideas in Computable Endogenous Growth*, by K. Vela Velupillai.

2005.17 *From Planning to Mature: on the Determinants of Open Source Take Off* by Stefano Comino, Fabio M. Manenti and Maria Laura Parisi.

2005.18 *Capabilities, the self, and well-being: a research in psycho-economics*, by Maurizio Pugno.

2005.19 *Fiscal and monetary policy, unfortunate events, and the SGP arithmetics. Evidence from a growth-gap model*, by Edoardo Gaffeo, Giuliana Passamani and Roberto Tamborini

2005.20 *Semiparametric Evidence on the Long-Run Effects of Inflation on Growth*, by Andrea Vaona and Stefano Schiavo.

2006.1 *On the role of public policies supporting Free/Open Source Software. An European perspective*, by Stefano Comino, Fabio M. Manenti and Alessandro Rossi.

2006.2 *Back to Wicksell? In search of the foundations of practical monetary policy*, by Roberto Tamborini

2006.3 *The uses of the past*, by Axel Leijonhufvud

2006.4 *Worker Satisfaction and Perceived Fairness: Result of a Survey in Public, and Non-profit Organizations*, by Ermanno Tortia

2006.5 *Value Chain Analysis and Market Power in Commodity Processing with Application to the Cocoa and Coffee Sectors*, by Christopher L. Gilbert

2006.6 *Macroeconomic Fluctuations and the Firms' Rate of Growth Distribution: Evidence from UK and US Quoted Companies*, by Emiliano Santoro

2006.7 *Heterogeneity and Learning in Inflation Expectation Formation: An Empirical Assessment*, by Damjan Pfajfar and Emiliano Santoro

2006.8 *Good Law & Economics needs suitable microeconomic models: the case against the application of standard agency models: the case against the application of standard agency models to the professions*, by Lorenzo Sacconi

2006.9 *Monetary policy through the "credit-cost channel". Italy and Germany*, by Giuliana Passamani and Roberto Tamborini

2007.1 *The Asymptotic Loss Distribution in a Fat-Tailed Factor Model of Portfolio Credit Risk*, by Marco Bee

2007.2 *Sraffa's Mathematical Economics – A Constructive Interpretation*, by Kumaraswamy Velupillai

2007.3 *Variations on the Theme of Conning in Mathematical Economics*, by Kumaraswamy Velupillai

2007.4 *Norm Compliance: the Contribution of Behavioral Economics Models*, by Marco Faillo and Lorenzo Sacconi

2007.5 *A class of spatial econometric methods in the empirical analysis of clusters of firms in the space*, by Giuseppe Arbia, Giuseppe Espa e Danny Quah.

2007.6 *Rescuing the LM (and the money market) in a modern Macro course*, by Roberto Tamborini.

2007.7 *Family, Partnerships, and Network: Reflections on the Strategies of the Salvadori Firm of Trento*, by Cinzia Lorandini.

2007.8 *I Verleger serici trentino-tirolesi nei rapporti tra Nord e Sud: un approccio prosopografico*, by Cinzia Lorandini.

2007.9 *A Framework for Cut-off Sampling in Business Survey Design*, by Marco Bee, Roberto Benedetti e Giuseppe Espa

2007.10 *Spatial Models for Flood Risk Assessment*, by Marco Bee, Roberto Benedetti e Giuseppe Espa

- 2007.11 *Inequality across cohorts of households:evidence from Italy*, by Gabriella Berloffia and Paola Villa
- 2007.12 *Cultural Relativism and Ideological Policy Makers in a Dynamic Model with Endogenous Preferences*, by Luigi Bonatti
- 2007.13 *Optimal Public Policy and Endogenous Preferences: an Application to an Economy with For-Profit and Non-Profit*, by Luigi Bonatti
- 2007.14 *Breaking the Stability Pact: Was it Predictable?*, by Luigi Bonatti and Annalisa Cristini.
- 2007.15 *Home Production, Labor Taxation and Trade Account*, by Luigi Bonatti.
- 2007.16 *The Interaction Between the Central Bank and a Monopoly Union Revisited: Does Greater Uncertainty about Monetary Policy Reduce Average Inflation?*, by Luigi Bonatti.
- 2007.17 *Complementary Research Strategies, First-Mover Advantage and the Inefficiency of Patents*, by Luigi Bonatti.
- 2007.18 *DualLicensing in Open Source Markets*, by Stefano Comino and Fabio M. Manenti.
- 2007.19 *Evolution of Preferences and Cross-Country Differences in Time Devoted to Market Work*, by Luigi Bonatti.
- 2007.20 *Aggregation of Regional Economic Time Series with Different Spatial Correlation Structures*, by Giuseppe Arbia, Marco Bee and Giuseppe Espa.
- 2007.21 *The Sustainable Enterprise. The multi-fiduciary perspective to the EU Sustainability Strategy*, by Giuseppe Danese.
- 2007.22 *Taming the Incomputable, Reconstructing the Nonconstructive and Deciding the Undecidable in Mathematical Economics*, by K. Vela Velupillai.
- 2007.23 *A Computable Economist's Perspective on Computational Complexity*, by K. Vela Velupillai.
- 2007.24 *Models for Non-Exclusive Multinomial Choice, with Application to Indonesian Rural Households*, by Christopher L. Gilbert and Francesca Modena.
- 2007.25 *Have we been Mugged? Market Power in the World Coffee Industry*, by Christopher L. Gilbert.

2007.26 *A Stochastic Complexity Perspective of Induction in Economics and Inference in Dynamics*, by K. Vela Velupillai.

2007.27 *Local Credit and Territorial Development: General Aspects and the Italian Experience*, by Silvio Goglio.

2007.28 *Importance Sampling for Sums of Lognormal Distributions, with Applications to Operational Risk*, by Marco Bee.

2007.29 *Re-reading Jevons's Principles of Science. Induction Redux*, by K. Vela Velupillai.

2007.30 *Taking stock: global imbalances. Where do we stand and where are we aiming to?* by Andrea Fracasso.

2007.31 *Rediscovering Fiscal Policy Through Minskyan Eyes*, by Philip Arestis and Elisabetta De Antoni.

2008.1 *A Monte Carlo EM Algorithm for the Estimation of a Logistic Auto-logistic Model with Missing Data*, by Marco Bee and Giuseppe Espa.

2008.2 *Adaptive microfoundations for emergent macroeconomics*, Edoardo Gaffeo, Domenico Delli Gatti, Saul Desiderio, Mauro Gallegati.

2008.3 *A look at the relationship between industrial dynamics and aggregate fluctuations*, Domenico Delli Gatti, Edoardo Gaffeo, Mauro Gallegati.

2008.4 *Demand Distribution Dynamics in Creative Industries: the Market for Books in Italy*, Edoardo Gaffeo, Antonello E. Scorcu, Laura Vici.

2008.5 *On the mean/variance relationship of the firm size distribution: evidence and some theory*, Edoardo Gaffeo, Corrado di Guilmi, Mauro Gallegati, Alberto Russo.

2008.6 *Uncomputability and Undecidability in Economic Theory*, K. Vela Velupillai.

2008.7 *The Mathematization of Macroeconomics: A Recursive Revolution*, K. Vela Velupillai.

2008.8 *Natural disturbances and natural hazards in mountain forests: a framework for the economic valuation*, Sandra Notaro, Alessandro Paletto

2008.9 *Does forest damage have an economic impact? A case study from the Italian Alps*, Sandra Notaro, Alessandro Paletto, Roberta Raffaelli.

2008.10 *Compliance by believing: an experimental exploration on social norms and impartial agreements*, Marco Faillo, Stefania Ottone, Lorenzo Sacconi.

2008.11 *You Won the Battle. What about the War? A Model of Competition between Proprietary and Open Source Software*, Riccardo Leoncini, Francesco Rentocchini, Giuseppe Vittucci Marzetti.

2008.12 *Minsky's Upward Instability: the Not-Too-Keynesian Optimism of a Financial Cassandra*, Elisabetta De Antoni.

2008.13 *A theoretical analysis of the relationship between social capital and corporate social responsibility: concepts and definitions*, Lorenzo Sacconi, Giacomo Degli Antoni.

2008.14 *Conformity, Reciprocity and the Sense of Justice. How Social Contract-based Preferences and Beliefs Explain Norm Compliance: the Experimental Evidence*, Lorenzo Sacconi, Marco Faillo.

PUBBLICAZIONE REGISTRATA PRESSO IL TRIBUNALE DI TRENTO