Econ 522 – Dan Quint –Nov 6 2008 – Results from the In-Class Experiment

Tuesday's in-class experiment was borrowed from Victor Matheson (2005), "Rationality, Tort Reform and Contingent Valuation: A Classroom Experiment in Starting Point Bias," College of the Holy Cross Working Paper #05-09. Everyone was given a handout with the following story:

You have been asked to serve on a jury on a lawsuit dealing with personal injury. In the case before you, a 50-year-old construction worker was injured on the job due to the negligence of his employer. As a result, this man had his right leg amputated at the knee. Due to this disability, he cannot return to the construction trade and has few other skills with which he could pursue alternative employment.

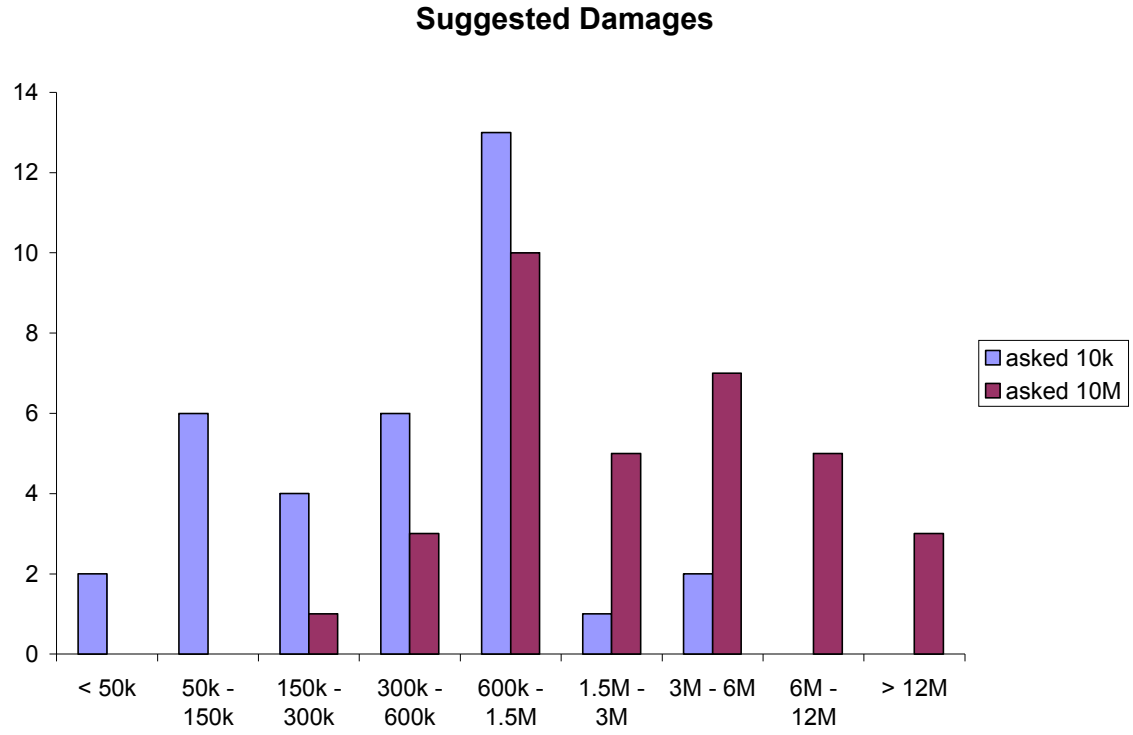
The negligence of the employer has been firmly established, and health insurance covered all of the related medical expenses. Therefore, your job is to determine how to compensate this worker for the loss of his livelihood and the reduction in his quality of life.

Half the class was asked the following three questions:

(a) Should the plaintiff in this case be compensated more or less than $10,000?
(b) How much more or less than $10,000 should the plaintiff be compensated? (Write down the total dollar amount you think the plaintiff should receive.)
(c) Are you male or female?

The other half of the class was asked the same three questions, with "$10,000" replaced by "$10,000,000" in parts (a) and (b).

As expected, those who were given the lower "reference point" tended to suggest lower damages:



Summary statistics of the data:

	Full Sample	Asked $10,000	Asked $10,000,000
Number of observations	68	34	34
Minimum	20,000	20,000	200,000
25th Percentile	500,000	212,500	1,000,000
Median	**1,000,000**	**500,000**	**2,250,000**
75th Percentile	3,500,000	1,000,000	5,601,625
Maximum	20,000,000	5,000,000	20,000,000
Arithmetic Mean (Average)	2,841,757	912,353	4,771,162
Geometric Mean	**1,067,754**	**450,838**	**2,528,847**

(Geometric mean is a better measure of the "center" of a distribution than average when the distribution is skewed to one side, as this one is.)

I mostly asked for gender as a red herring, but as long as I had the data, I took a look:

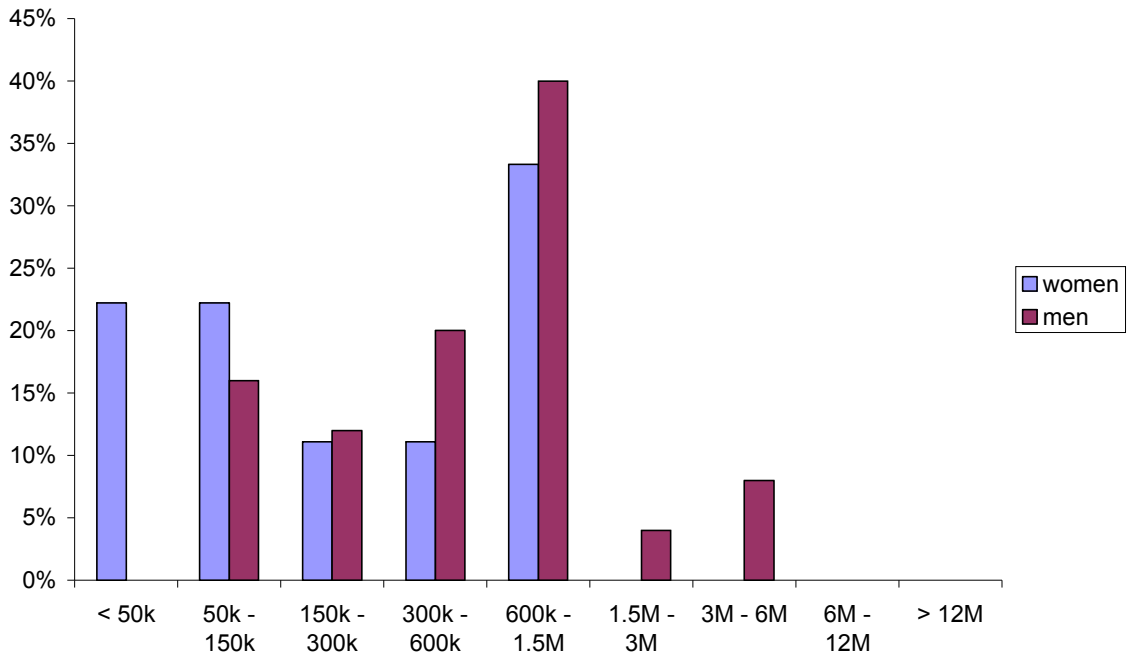
	Full Sample	All Men	All Women
Number of observations	68	46	22
Minimum	20,000	100,000	20,000
25th Percentile	500,000	500,000	387,500
Median	1,000,000	1,000,000	1,000,000
75th Percentile	3,500,000	2,000,000	7,250,000
Maximum	20,000,000	20,000,000	20,000,000
Geometric Mean	1,067,754	999,432	1,226,079

Women and men had similar medians and geometric means, but women tended to give more extreme (both high and low) answers than men. The effect is most dramatic when you separate it by both gender and which questions were asked (although the samples sizes do get small):

	Men $10k	Women $10k	Men $10M	Women $10M
Observations	25	9	21	13
Minimum	100,000	20,000	200,000	500,000
25th Percentile	250,000	100,000	1,000,000	2,000,000
Median	700,000	200,000	1,500,000	5,000,000
75th Percentile	1,250,000	750,000	5,000,000	10,000,000
Maximum	5,000,000	1,000,000	20,000,000	20,000,000
Geometric Mean	610,462	194,249	1,797,330	4,390,112

You can see these in the graphs on the next page: women tended to give lower answers than men when asked $10,000, and higher answers than men when asked $10,000,000.

People Asked $10,000



People Asked $10,000,000

