ABSTRACT

In recent years there has been a considerable amount of attention devoted by experimental economists to the study of dictatorship and ultimatum games. This interest is stimulated by two main concerns. First there is the game theoretical question of whether laboratory subjects will behave in a manner consistent with the backward induction logic called for by rational agents in such strategic situations. Second, to the extent that the answer to the first question is negative, investigators have asked whether notions of equity or fairness have intervened and guided the behavior of subjects in a manner that is contradictory to the prescriptions of game theory.

Fairness, however, is not a concept that is devoid of context. What may be considered unfair when two people meet face to face or in a bilateral manner may be considered fair in a market context where economic survival is at stake. For example, it may be considered unfair in isolation to charge a high price for prescription drugs to people in need but one's opinion of such an act might change if the economic survival of the company might be threatened if they failed to do so. Putting the survival issue aside, the act seems brutal, including it allows one to make a justification.

The morality of economic agents embedded in a market context may therefore be quite different form their morality in isolation. While we are not claiming that people change their nature when they function in markets it may be that the competition inherent in markets and the need to survive offers justifications for actions that, in isolation, would be unjustifiable. In the experiments that follow we test this hypothesis. While we give considerable support to it, there are still a number of unresolved issues.