

ABSTRACT

A PRACTICAL PERSON'S GUIDE TO MECHANISM SELECTION: SOME LESSONS FROM EXPERIMENTAL ECONOMICS

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One of the most interesting developments in economic theory over the past twenty years has been the emergence of the theory of mechanism design. In short, mechanism design theory investigates whether it is possible to design an economic institution (represented formally as a game form) which, when imposed upon a set of individualistic agents, will lead them to take actions consistent with some a priori chosen performance (social welfare) criterion.

In the real world, however, mechanisms compete for adoption. By this I mean that for any given allocation problem an organization might face, there might be a number of mechanisms available to solve it. The organization's leaders must then choose between these mechanisms based on their characteristics and if, for example, the mechanisms have different distributional consequences for the power groups within the organization, a political battle may ensue with each power group lobbying for the adoption of their own mechanism. The mechanism that is ultimately chosen will emerge from this bargaining process within the organization. The process of mechanism design is therefore different from the process of mechanism selection.

In this paper we concern ourselves with the selection criteria that organizations might use to choose between mechanisms. It is called a practical person's guide because the criteria I will be discussing are not the elegant criteria used by economic theorists to justify their mechanisms but rather the criteria likely to be used by some no-nonsense corporate C.E.O. or government official. Seven criteria are offered which we think are reasonable ones to be considered when the mechanism selection problem arises. Evidence from a number of experimental studies is then offered to evaluate these criteria using the mechanisms investigated by these experimental studies.