Creating Culture in the Lab: Equilibrium Conventions in Inter-Generational Ultimatum Games

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Abstract

The Ultimatum Game and the experiments surrounding it, have presented economists with a puzzle that they have struggled to explain. But as Robert Aumann has pointed out, while there may be only one sub-game perfect equilibrium to the Ultimatum Game, there are an in¯nite number of Nash equilibria. All that is needed to maintain a non-sub-game perfect equilibrium is a set of Sender beliefs that the o®er contemplated is the minimum that would be accepted and behavior on the part of the Receivers that con¯rms these beliefs. The only puzzle is how such a set of mutually consistent beliefs developed in the ¯rst place and how they are passed on from one generation of player to the next. Using an inter-generational game experimental setting, this paper investigates how "culture" serves as the selection mechanism which solves this puzzle. Culture is then simply a system of beliefs and self-con¯rming actions which support any one of these non-sub-game perfect Nash equilibria as the accepted solution to the game being played. The outcome is, as Robert Aumann has called it a "perfectly good" Nash equilibrium convention which is just not perfect.

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