

The Property Rights Game Revisited: A Behavioral Analysis

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The Original Paper - 1

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- Geurts and Jaffe (*JREFE 1996*) report results from an original educational game showing the importance of the three basic Property Rights (Snare: *American Philosophical Quarterly 1972*) on Real Estate wealth creation:
 - Right to Use
 - Right to Exclude
 - Right to Transfer

The Original Paper - 2

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- Some of the behavior of the student participants did not seem to be rational.
- Indeed, Geurts and Jaffe wrote “We have noticed that peer pressure to work can hamper this process” with regards to irrational behavior.

Behavioral Explanations - 1

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- Since publication of original paper much new research on Behavioral Real Estate.
- Some important observations:
 - Students do not have any prior knowledge of The Game: Students are reacting to information, using heuristics (mental shortcuts) and social cues instead of “perfect” information.
 - Bayesian Updating whereby individuals update beliefs based on observations in order to reduce the uncertainty present in a given decision making process.

Behavioral Explanations - 2

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- Prior to beginning the game, students were primed with the idea that this was an exercise in wealth maximization.
- By participating in an exercise that had been presented as wealth maximization, the students were primed to react to the game in that context.
- Although the students received no formal exposure to the property rights aspects of the game prior to the exercise, they did “proof” the importance of them in their wealth maximization objective.

Behavioral Explanations - 3

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Stage One:

- Once the students realize that, due to redistribution, doing nothing yields the same result as working, some (but not all) will stop working.
- This behavior is consistent with the aforementioned Bayesian Updating.
- Also Informational Social Influence. Note: This is a very transparent world as opposed to the “real world”.

Behavioral Explanations - 4

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Stage Two:

- Students stopped working altogether in order to avoid the loss rather than working, to have some kind of gain.
- Decline in productivity happened much faster than decline in productivity in Stage One. Could be due to Bayesian Updating or:
 - => Prospect Theory: Losses of a certain amount will be felt more keenly than the original gains. (*Needs further testing but more likely*)

Conclusions

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- Results of The Game are still relevant: It shows the importance of the basic property rights for wealth creation.
- However this new behavioral analysis shows that besides the basic property rights participants on the real estate market are also driven by non-rational drivers.