

## Conference Report for 2014 Cambridge Summer School in Social Economics

June 16 to 20, 2014

The 2014 Cambridge Summer School in Social Economics, held by the Cambridge INET institute with the collaboration of HCEO Chicago, welcomed more than 55 participants coming from 29 different universities and 10 different countries. The intensive 5-day summer school revolved around a series of six lecture blocks led by world leading authorities in social economics. These lectures provided participants with a clear sense of the research frontier and introduced them to the tools and methods needed to study questions of crucial interest in this field. A particular attention was given in this introduction to the bridging of gaps between theoretical, empirical and experimental work. Together, the speakers tackled a wide range of topics of pressing importance to the field of social economics, including social networks, strategic interactions on networks, network-based institutions, social preferences and morality, the formation of preferences, and social norms, social identity and discrimination.

The summer school also provided participants with many opportunities to discuss their own research and engage directly with speakers and fellow participants. In particular, students were offered the possibility to present their research formally in a two-hour poster session. The final programme (available online: <http://bit.ly/1s76cB>) also included 5 luncheons, three hours of open discussions between speakers and students, social activities and a formal dinner in one of Cambridge's traditional colleges, all of which contributed to foster the exchange of ideas and collaboration between participants.

Here is a short summary of the lectures given during the summer school.

### **Sanjeev Goyal, University of Cambridge: Networks and Markets**

Sanjeev Goyal opened the lecture series with a broad discussion of and on the concept of social embeddedness, stressing how social networks both influence and are influenced by individual behaviour. Professor Goyal started with a formal presentation of the theoretical tools and frameworks used in economics of networks. He then addressed the role of network structure in generating outcomes when individuals interact on fixed networks. Such interactions can exhibit local complementarity or substitutability, or may present positive or negative global effects. These considerations have important implications, both for welfare and policy interventions. Professor Goyal then discussed how network models can prove useful to the understanding of market power. Supply, service or trading chains are central to many sectors of any economy, and strategic interactions between players within and between those chains are consequently underlying many economic outcomes and phenomena. While individuals often interact within networks that they must take as "given", situations wherein they choose whom they interact with are also common. To study these situations, Professor Goyal discussed models of endogenous network formation. He emphasised how patterns of information acquisition can be understood as a consequence of strategic interaction between similar individuals when networks are endogenous. Professor Goyal ended his lectures with an engaging discussion of important open problems in the field of economics of networks.

### **Lawrence Blume, Cornell University: Economic Models and Network Science**

Larry Blume began his lectures by arguing that network models in economics offered a tractable and natural means to bridge the gap between classical economic models – which are “all about how people make choices” – and the traditional approach in sociology – which is all about “why people don’t have any choices to make” (Duesenberry, 1960). His lectures focused on the role of social structure in generating aggregate phenomena (e.g. juvenile criminality) through individuals’ interactions and *peer effects*, i.e. when individuals are directly influenced in their choices by their peers’ choices and actions. Professor Blume then presented some important theoretical tools to the study of social networks and investigated some of their recurrent features and properties, including in particular the “small world” property and homophily. Professor Blume concluded his lectures with a discussion of different types of network effects (social learning, network externalities and social norms), and examined the challenges to empirically identifying these effects.

### **Armin Falk, Bonn University: Personality and Morality**

Armin Falk opened his lectures by presenting morality as a promising, yet generally overlooked, topic of research for economists. He presented moral behaviour as the outcome of the interaction between individual conscience and contextual and institutional determinants. The first part of Professor Falk’s lectures focused primarily on recent experimental work addressing the role of institutional determinants in moral behaviour. Such determinants include markets institutions and diffused pivotality in group decisions. He showed that people’s willingness to act in a prosocial or moral manner can be manipulated in important ways simply by varying different features of their immediate environment. In the second part of his lectures, Professor Falk explored how heterogeneity in preferences can shed light on important economic outcomes. While traditional models in economics tend to take preferences for given and focus on changes in incentives to explain behaviour, he argued that preferences formation can be seen as an endogenous process.

### **Shachar Kariv, University of California (Berkeley): Distributional Preferences**

Distributional preferences – that is, individuals’ preferences over how resources are distributed over a population of agents, including themselves – shape in important ways individuals’ opinions about a wide range of issues, including in particular governments’ redistributive and social policies. We cannot assess the optimality and desirability of these policies, argued Shachar Kariv during his lectures, without a thorough understanding of people’s distributional preferences. Professor Kariv presented a simple theoretical framework and an experimental design aiming to disentangle subjects’ different motivations and preferences. He classified subjects along two axes, namely the equality-efficiency axe and the fair-minded-selfish axe. He then explored how distributional preferences were related to individual characteristics as well as to voting patterns, and how distributional preferences could be affected by economic shocks (e.g. booms or recessions). Professor Kariv concluded his lectures with a discussion of *moral* preferences, defined as an individual’s preferences in the “original position” or “behind the veil of ignorance” (in Rawls’ and Harsanyi’s sense), and their implications for individual choice.

### **Kaivan Munshi, University of Cambridge: Networks and Mis-allocation**

Kaivan Munshi articulated his lectures around the roles of community networks and their consequences for economic development in general. He argued that while network-based informal institutions (e.g. network-based insurance schemes) can help reduce market imperfections, they can also generate distortions of their own. In particular, Professor Munshi explained that rural community networks, as risk-sharing mechanisms providing individuals with means to (partially) protect themselves against different risks, can account for the phenomenon of low urban migration in India. This low migration can in turn explain the persistence of an important wage gap between urban and rural areas. Professor Munshi argued that while some policy interventions could foster migration and (successfully) contribute to reducing the wage gap, they could damage the sustainability of network-based informal institutions and, as such, entail uncertain net effects on welfare. Professor Munshi's lectures eloquently demonstrated how theory and empirics can be integrated to study a precise research question in social economics.

### **Rachel Kranton (Duke University): Identity and Inequality**

Rachel Kranton concluded the lecture series with a broad overview of economic theories of identity, discrimination and social norms. She began with a multidisciplinary discussion of the concept of identity, and introduced a simple yet general approach to incorporate this concept in economic models in general, and in agents' utility function in particular. She considered one important application – education and schooling – and showed how identity models, emphasising how individuals thrive to conform to the norms ascribed to their social group, can shed light on phenomena such as under- or over-achievement for different groups of students. She also showed that such phenomena can be seen as outcomes of “signalling” strategies by students aspiring to be socially accepted by their peers. Professor Kranton concluded her lectures with a discussion of new experimental work exploring how social groups, either “minimal” or based on political affiliation, can influence subjects' cooperative inclinations in striking ways. She argued that while social identity can be conducive of cooperation within groups, it can also bolster competitive behaviour when individuals of different groups interact.