

Lobbying and Income Inequality

Experimental Evidence

David O'Callaghan (B.Ec(Advanced))

Supervisor: Dr Ralph Bayer



School of Economics

University of Adelaide

November 4, 2016

Thesis submitted in partial completion of the requirements for the degree of
Bachelor of Economics (Honours)

Abstract

In this paper we develop a simple two-stage model of lobbying with income inequality and examine our predictions in the laboratory. We found a treatment effect contradicting the theoretical predictions: Low wage subjects paired with high wage subjects over exert in a real effort task, beyond individual rationality, producing for the group at the expense of individual welfare. Neither inequality aversion nor competitive preferences explains the off-equilibrium behaviour. In the second stage, in contrast to much of the literature, subjects tended to exert effort in the contest quite close to SPNE. Delving deeper, we found those that contributed more tax revenue in the first stage exerted more effort in the contest in the second stage, despite it being a strictly dominated strategy. Inversely, those that contributed less exerted less. The effect was observed across treatments. Over-exertion of effort displayed by the higher contributors can potentially be explained by an entitlement effect within the preferences of players, which expresses as a dislike for equal splits of pots, which were not created equally.

Declaration

I declare that except where appropriately acknowledged this thesis is my own work, has been expressed in my own words and has not previously been submitted for assessment.

Signature

Date

word count: 11,063

Acknowledgements

Firstly, I would like to thank my supervisor Professor Ralph-Christopher Bayer, without whose guidance, generosity of time and knowledge this thesis would not have been possible. I would also like to thank my partner Tamzin, for her continued support during my honours year. Lastly, I would like to thank my friends in the honours room for making the journey all the more enriching.

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