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Scroogenomics: Why You Shouldn't Buy Presents for the Holidays, by Joel Waldfogel (Princeton University Press, Princeton, NJ, 2009), pp. 186.

How many of us can say, 'I first encountered Christmas after my formal indoctrination as an economist?' Perhaps that is why we haven't written this book. From the first description of Christmas as a 'red tornado' scattering unwanted goods among the population, to the final plea for charity gift cards to replace (most) presents, it takes *exactly* the line that the title would indicate.

Theoretically, gift giving need not be wasteful. Gift givers could find rare treasures that recipients had been unaware of. Sentimental value, one hopes, has a positive sign. Or an unwonted but highly pleasurable extravagance might induce less guilt if it comes as a gift.

In the balance, however, these search and psychological complications seem to be overwhelmed by good old-fashioned preferences and incentives. Gift givers do not know recipients' desires as well as the recipients do, and have little incentive to find out.

Joel Waldfogel has published many papers on gift giving, and so is able to back up these arguments with chapter and verse. A few of the highlights: the deadweight loss of Christmas is 18% (i.e. gifts are valued by recipients 18% less, on average, than their own purchases of equal cost). Distant relatives do worst. Americans are not particularly big spenders, either per capita or as a share of gross domestic product (top honours go to Norway and Portugal, respectively). Christmas is not a luxury good – it accounts for a declining share of income, both over time and comparing poor with rich households.

Unfortunately for the popular audience, the unpalatability of the argument is compounded by the denseness of the evidence. Graphs and tables are eschewed, resulting in dense paragraphs of statistics which are harder to follow, or skip.

On the academic side, the question of why such an inefficient institution persists is dealt with rather cursorily, with a nod to mysterious 'behavioural norms'. He also complicates the argument by allowing the potential benefit of spending one's own money to exceed 100 cents on the dollar. I am not even sure this makes sense (how can the marginal benefit of a dollar be greater than a dollar?), and it certainly does not make the rest of the argument easier to follow.

Really, this review is superfluous. If you enjoy the title, you will enjoy the book.

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Experimental Economics: Rethinking the Rules, by Nicholas Bardsley, Robin Cubitt, Graham Loomes, Peter Moffatt, Chris Starmer and Robert Sugden (Princeton University Press, Princeton, NJ, 2009), pp. viii + 384.

One of the main contributions of experimental economics has been to highlight the importance of adapting institutions, conventions and rules to meet the needs of economic systems. Noting the distinct differences of appropriate conventions in markets and non-market settings, Vernon Smith began his 2002 Nobel Prize speech by quoting Hayek (1988, p. 18):

> … we must constantly adjust our lives, our thoughts and our emotions, in order to live simultaneously within different kinds of orders according to different rules. If we were to apply the unmodified, uncurbed rules (of caring intervention to do visible 'good') of the…small band or troop, or…our families… to the (extended order of cooperation through markets), as our instincts and sentimental yearnings often make us wish to do, we would *destroy* it. Yet if we were to always apply the (noncooperative) rules of the extended order to our more intimate groupings, we would *crush* them.

His reflection, of course, is that applying one set of conventions to a different environment leads to imperfect adaptation. This sentiment has been reflected in both market experiments of the past, which concentrated on the effect of different market mechanisms, and the more recent behavioural economic literature, which studies the maladaptation of personal norms to foreign environments.

While experimentalists have been quick to point out the need to understand adaptation in economic systems, there has been strong disagreement within the experimental community as to how flexible methodology should be to changes in its own research agenda. While 20 years ago the primary interest was testing market theories, experimentalists today have broadened their research agenda and have begun to encompass problems traditionally studied by social psychology, political science and sociology. This begs the question: Has experimental economic methodology adequately adapted to the changes in its research agenda?

Experimental Economics: Rethinking the Rules by Bardsley *et al.* (2010) proposes a re-evaluation of experimental economic methodology based on changes in its primary research agenda. Given an emergent trend towards inductive experimentation and a shift away from 'hypothetico-deductive' theory testing, the book seeks to evaluate whether the dominant traditions and protocols are the correct ones. Overall, the authors argue that experimental economics would benefit from a more flexible set of rules, one which allows experimental designs to adapt to the process being studied.

The book is loosely divided into three parts. In Chapters 2 and 3, the authors evaluate how sound experimental economics is in its traditional role of evaluating theory. The authors begin their discussion with historical objections to experimental economics and discuss the traditional defences of experimental practitioners. This discussion eventually expands to encompass standard methodological issues such as the Duhem-Quine problem and a discussion of Popperian falsification, scientific research programmes and the need for a tighter relationship between testable theory and experimentation.

At the heart of these chapters is an argument for testable theory and refinement based on experimental evidence, rather than potentially vacuous generalisation. While the authors' core argument – that it is not sufficient to dismiss disconfirming evidence without suggesting testable differences between theory and experiments – is convincing, there is a tendency to argue for specificity without acknowledging the value of generality. The success of economics as a discipline has come largely from our common theoretical language, which has allowed for wide understanding, portability and broad collaboration. A push towards a-theoretical treatments of behavioural anomalies has a danger of fragmenting our language, a significant cost largely ignored in the books discourse.

Chapters 4 and 5 form the most provocative part of the book, which follows the *de facto* transition of experimental economics from a tool of 'hypothetico-deductive' evaluation to an inductive science. Following the widespread interest in behavioural economics, experimental economists have naturally gravitated away from theory testing towards collecting 'stylised facts' or exhibits, which do not have an initial theoretical home. While on the surface this transition has been feted, the shift away from formal theory testing is not without controversy. Deviations that are robust in the lab may, in fact, be weak factors in external environments. Without a deductive framework on which to rely, induction necessitates the merger of lab, field and natural data for the validation of an exhibit.

The controversy and issues inherent in inductive science are well discussed. Chapter 4 covers the essential methodological issues of inductive methods while Chapter 5 contains a broad discussion of external validity as well as the issues in applying experimental results to applied problems. There is a tendency, however, to downplay some of the new issues which arise in inductive methodologies where the interest is on individual preferences rather than those induced by the experimenter. For example, there is a fundamental sample selection issue which arises in comparing individual preferences across subgroups such as gender, age and background.[1] These issues are partially handled in traditional experimental economic techniques through induced value methods and by concentrating on treatment effects rather than type categorisation. Unfortunately, discussions of induced value theory, saliency and randomisation are under-represented in the text.

[1] See Harrison *et al.* (2009) and Cleave *et al.* (2010).

While the first five chapters can be seen as a core of methodological debate, Chapters 6 and 7 cover more idiosyncratic topics. Chapter 6 argues, rather curiously, that hypothetical data elicitation methods generate data with similar validity to paid methods. This argument appears to be partly an appeal to unify social psychology and experimental economics methodologies, and an appeal for discretion in choosing the best elicitation method for the desired research question.

While introducing a few novel arguments into a rather old experimental debate, the authors' discussion tends to ignore central arguments in favour of experimental payments. Despite similarity in hypothetical and paid elicitation for some experimental questions, subject payments do in fact lead to significant differences in results for many of the questions experimentalists are interested in.[2] The literature on contingent valuation, for instance, finds clear response biases in hypothetical elicitation methods.[3] Furthermore, the market-based origins of experimental economics are predicated on the notion of saliency, a notion which is central to the discussion of payment and elicitation.[4]

Chapter 7 studies the important question of how to incorporate noise into the analysis of experimental games. While less general than it might be, the discourse in this chapter nonetheless highlights the need for interaction between econometricians and experimentalists in analysing complex experimental data.

Despite some minor reservations, *Experimental Economics: Rethinking the Rules* is a well-intentioned book which does an admirable job in consolidating and modernising the ongoing methodological debates surrounding experimental economics. While some critics will be unsatisfied by the call for a more permissive and discretionary approach to experimental methods, the treatise captures well the emergent shift already taking place in experimental economics towards social psychology. I would recommend this book to empirical social scientists, particularly the first two parts, which crystallise the major debates ongoing in the discipline.

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[2] See, for instance, Harrison and Rutström (2008).

[3] See Diamond and Hausman (1994) and Harrison (2006).

[4] See, for instance, Smith (1976).

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