



Charity Case:

A Class Competition that Combats Economics Students' Proclivity Toward Self-Interested Behavior

This paper describes a class competition that introduces students to the concept of effective altruism and metrics used to evaluate the effectiveness of charities. A well-established strand of literature demonstrates that economics students are more likely to behave in a self-interested way than are students from other disciplines. An entirely separate strand of literature reveals that the act of charitable giving increases the happiness of the donor. This class exercise motivates students to increase their prosocial donative behavior by appealing to their self-interest.

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1. Introduction

One of the basic assumptions in economics is that agents are utility maximizers. Yet we never teach our students how to maximize their own utility. Academic studies on happiness suggest there are some counter-intuitive behaviors that increase happiness. Perhaps the most surprising finding in the happiness literature, particularly for economics students who take the self-interest model literally, is that giving money to others can increase your happiness.

This paper reviews several strands of literature. Taken together this literature suggests economics students would benefit from a class activity that focuses on charitable giving. This paper offers some accessible student reading suggestions and a comprehension assessment on the topics of happiness and effective altruism. It then describes a classroom competition where each student chooses a charity, evaluates its efficiency, and makes a case for donating to that non-profit.

2. Literature Review

This literature review has three sub-sections because there are three separate and distinct strands of research that provide the intellectual underpinnings for this classroom exercise. Sub-section (a) reviews relevant research regarding the relationship between charitable giving and happiness, and offers evidence that charitable giving is not only correlated to higher levels of happiness but causes increases in reported levels of happiness. Sub-section (b) offers evidence that those who have studied economics are less likely than the rest of society to engage in prosocial acts including the act of charity. Thus, paradoxically, those who study models based on utility maximization are themselves behaving in a way that will not maximize their own utility. Finally, in sub-section (c), a paper from the academic dishonesty literature is reviewed that suggests that when faculty devote class time to a topic they elevate its importance from a student's perspective and can, thereby, effect change.

3. Literature Review (a): Charitable Giving and Happiness

Anik et al. (2009) point out that much research, across a variety of disciplines, has shown a correlational between charitable giving and happiness. But correlation does not establish causation. There is, however, a strand of literature that substantiates the idea that donative behavior causes increases in happiness.

Dunn et al. (2008) report on a study they conducted that reveals a causative link, rather than a simple correlation, between donative behavior and happiness. The participants in the study reported their baseline happiness level and were then given money, either \$5 or \$20, to spend by the end of the day. One randomly chosen group of participants was told to spend this money on themselves by using it either to make a purchase for themselves or pay a bill. The other group was told to spend it on others by using the money to make a donation to a charity or to buy someone else a gift. After everyone had spent the money they were again asked to report their happiness level. Those who spent the money on others reported a happiness level that was almost one standard deviation above that reported by participants assigned to spend the money on themselves.

In another study, Dunn et al. (2010) gave study participants \$10 and offered them the opportunity to share their windfall with a randomly chosen partner. The more money the participants gave away the higher their reported happiness after the experiment, controlling for happiness beforehand. Conversely, the more money they retained the higher their measured level of cortisol. Cortisol is a stress hormone that has been linked to health problems.

Aknin et al. (2010) use “reminiscence-based methodology” to test the causal impact of donative giving. They randomly assign study participants to one of two tasks: some participants are asked to write about a time they spent money on themselves, other participants are asked to write about a time they spent money on others. They conduct this study in Canada and Uganda. In both nations, participants assigned to recall an instance of spending money on others reported significantly higher levels of happiness than those who wrote about spending money on themselves. The authors conclude:

To test for causality, we conduct experiments within two very different countries (Canada and Uganda) and show that spending money on others has a consistent, causal impact on happiness. In contrast to traditional economic thought—which places self-interest as the guiding principle of human motivation—our findings suggest that the reward experienced from helping others may be deeply ingrained in human nature...

Not everyone has the same measurable, physical, response to giving. Harbaugh, Mayer, and Burghart (2007, pp. 1623-1624) report that charitable giving activates regions of the brain known to respond to rewards. The neural activation associated with charitable giving is “similar to that which comes from receiving money for oneself.” However, not all subjects showed the same level of neural response. Their results show that “...subjects with larger activation responses to money for themselves were less likely to give to charity.” There was nothing, however, in their study that suggested that this was an immutable state of being. Learning that giving to others is self-beneficial could change this neural response.

When Dunn, Aknin, and Norton (2008) asked survey respondents which would make them happier, spending money on themselves or spending money on others, more than 63% believed that spending on themselves would make them happier. Thus, it is not immediately obvious to many people that spending on others can be self-serving.

Anik et al. (2009, p. 16) note that readers of an article outlining the link between giving and happiness reported higher levels of happiness when they spent more on others. They conclude, “...the beneficial effect of giving still emerged, suggesting that becoming aware of the emotional benefits of prosocial spending did not undermine its impact on happiness.” Thus, revealing to students the link between happiness and prosocial spending should not cause that link to dissipate.

4. Literature Review (b): Are Economists Less Charitable than the Rest of Society?

In a classic study, Frank, Gilovich, and Regan (1993) ask the question “Does studying economics inhibit cooperation?” They report that the percent of economics professors who gave no money to charity was more than twice as high as the percent of professors from other disciplines who gave no money to charity. Although the annual median gift of economics professors to charities is slightly larger than the median for all disciplines, after adjusting for the higher incomes economists earn, they under contribute.

Bauman and Rose (2011) consider the percent of University of Washington undergraduates who voluntarily chose to contribute to two specific social programs. They find that a smaller percentage of economics majors chose to donate than students majoring in other disciplines. Furthermore, they find that non-economics majors who have taken an economics course are less likely to donate than non-economics majors who have not taken a class in economics.

Other research that does not directly test the charitable behavior of economics students is still suggestive. Repeatedly we find that economics students are less likely than those in other academic disciplines to behave cooperatively when faced with social dilemmas. Marwell and Ames (1981) find that first-year economics graduate students are more likely than others to free-ride in a public-goods experiment. Carter and Irons (1991) find that economics students offer lower amounts in ultimatum games. Frank, Gilovich, and Regan (1993) report that, in a prisoner's dilemma game, sixty-percent of economics majors defect while only 39% of non-majors defect. Frank and Schulze (2000) find economics students are more susceptible to bribes.

It appears that economics training does not produce students who are inclined toward prosocial behavior. The class competition described below seeks to change this.

5. Literature Review (c): Can Behavior be Modified?

Donald L. McCabe is a highly prolific researcher on the topic of academic dishonesty. In a summary paper (McCabe, Trevino, & Butterfield, 2001), the authors discuss what faculty can do to reduce cheating. They focus on developing a culture that emphasizes academic integrity. This involves devoting classroom time to the topic: "...schools that do not, at the very least, engage their students in a meaningful dialogue about academic integrity are likely to experience the persistent levels of academic dishonesty identified in virtually all research on cheating in college." They rank order strategies faculty can employ to reduce cheating and at the top of their list is suasion. Simply affirming to students the importance of academic integrity can reduce the aggregate level of cheating.

Analogously, if we as economics faculty want to produce graduates who are more likely to choose to share their income with others then we must devote some class time to emphasizing the value of such behavior. In failing to do this, we do our students a disservice. If donative behavior increases the utility of the giver then an increase in charitable giving is a win-win strategy--society benefits and the donor benefits.

6. The Class Activity

A. Step 1: Foundational Readings

The first step of this activity is to expose students to accessible readings that provide the intellectual foundations for this activity. The suggested readings below have companion comprehension questions found in the appendix of this paper.

"Can Money Buy You Happiness?" (Blackman, 2014) is an overview of the practical applications of the happiness literature. This article includes a section on charitable giving and its direct impact on reported happiness. This provides a foundation for the notion that it is in an individual's self-interest to engage in donative behavior.

"Peter Singer on the Ethics of Philanthropy" (Wolfe, 2015) and "The Trader who Donates Half his Pay" (Kristof, 2015) both introduce students to the concept of effective altruism. Effective altruism asks where will a one-dollar donation do the most to alleviate suffering?¹ This focus on efficient giving appeals to both economics and finance students.

B. Step 2: The Assignment

The class is told that each student must choose a charity and explain why it is worthy of donations. If you persuade your professor that your charity is the most worthy out of all the non-profits reviewed by the class then the professor will donate \$250 to your charity. Remember, as

¹For more information on effective altruism consult effectivealtruism.org.

an economics professor you are particularly likely to fall prey to under-contributing to charities. A public commitment to make a contribution is a good way to increase your happiness.

All students submit a report on their chosen charity. In their report, students must indicate whether they wish to be considered for Round 2. From the reports willing to be considered for Round 2, the professor will select what he/she considers to be the top five. These students are awarded 10 extra credit points for being in the top five but will have to make a classroom presentation on the attributes of the charity they selected. The winner, as determined by the professor, out of these five will receive another 10 extra-credit points and the charity they chose will receive the professor's donation.

C. Step 3: The Grading Rubric

The grading rubric for this assignment is found in Appendix B. A more thorough description is offered here.

The student report must begin by describing the charity's mission. This must go beyond the mission statement and include a description of the problem(s) the charity is trying to remedy. The report needs to describe the methods the charity uses achieve its goals. This information should be available on the organization's website.

The student is also required to articulate why they chose this particular charity. One of the advantages of this requirement is that it humanizes the educational experience. Some students will choose charities that seek to remedy problems that have impacted them in some way. In revealing their personal backstory a closer bond between the student and professor is formed.

Building on the concept of effective altruism, the student report is required to review some of the fundamental financial statistics of the charity found via Charity Navigator:

Program Expenses: The percent of the charity's total expenses spent on the programs and services it delivers.

Administrative Expenses: This measure reflects what percent of its total budget a charity spends on overhead, administrative staff, and organizational meetings.

Fundraising Efficiency: The amount the charity spends to raise \$1 in charitable contributions.

Total Revenue: This metric reveals whether this is a large or a small organization; a donation of a given size represents a larger percent change in an organization's budget the smaller the total revenue.

CEO Compensation: This metric reveals how much the non-profit is spending on top leadership.

Charity Navigator also provides a document describing how to glean these statistics from an organization's IRS Form 990.² This will assist students who wish to choose a charity that is not evaluated by Charity Navigator.

Students are also required to report on the donor privacy policy of the organization. Potential donors typically want to minimize the likelihood that their personal information will be sold or otherwise monetized. An organization without a stated privacy policy is unlikely to keep donor information confidential.

²This can be found at: "Evaluating Charities Not Currently Rated by Charity Navigator" <https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=847>.

The student report concludes with a review of another charity that addresses similar problems. The student must compare the above-described financial metrics of this alternative charity with the one that they chose and relate why their charity was their preferred choice.

7. Discussion and Conclusion

Students of economics appear to shy away from donative behavior. This classroom competition introduces them to the notion that it is in their utility-maximizing self-interest to engage in charitable giving. It also familiarizes students with the concept of effective altruism and some metrics used to evaluate the effectiveness of charities. Because it is a competition, with real and substantial money on the line, both students and the professor have a heightened interest in the outcome. Many economics learning goals list critical thinking as an objective including the ability to identify assumptions. This exercise focuses on one of the primary assumptions of economic theory, utility maximization, and encourages students to critically reflect on that assumption.

This classroom competition is suitable for any upper-division class that studies utility theory. I have used it in Intermediate Microeconomics, Game Theory, and Behavioral Economics. All of these classes had a mix of economics students, finance students, and general business students. In Intermediate Microeconomics the natural place to insert this in the curriculum is after introducing indifference curves and budget lines; it becomes part of the discussion of utility maximization. In Game Theory this exercise belongs at the point where the class begins to consider critiques of the assumptions underpinning the models. In Behavioral Economics this exercise is a natural fit with the topics of Prospect Theory.

Student presentations can sometimes be intensely personal. Winning charity presentations from my classes include:

- An orphanage in Africa that cares for children born with physical disabilities. Traditionally, these children have been abandoned by their parents and left to die. The student who made this presentation had volunteered at the orphanage and was very passionate about the work the charity performs. His presentation was filled with his personal photos of children at the orphanage that he took while volunteering there. The impact his presentation had on the class was more profound than any lecture I could have given about poverty and income disparities between developed and developing countries.
- A charity focused on suicide prevention. A student who struggled with mental health issues made this presentation. At the end of the presentation, he listed a hotline number anyone considering suicide could call. Another student raised his hand and said that he had used that phone number and it had worked. Both of these students were high-achieving leaders respected by their peers. Their willingness to speak openly about suicide, particularly given the recent suicides of other students within our academic community, captured the attention of the class in a way I rarely achieve.

My experience with this competition and student reactions to this competition has been very positive. It has strengthened classroom bonds both between the professor and the students and between students. It has also changed student attitudes. In a recent classroom survey, students were asked "On a scale of 1- 10 do you think that donating money to a charitable institution would increase your happiness? 1 = it is impossible that donating money would increase my happiness and 10 = donating money to a charitable institution would, with absolute certainty, increase my happiness." Before the classroom competition, the average answer to this question was 5.77. After the competition, the average rose to 8.15, a highly statistically significant increase. After the competition was completed, all students surveyed indicated that

before making future donations, they would research different charities to determine which organization would make the best use of the funds they donate.

Post-competition survey comments regarding whether students in the future intend to research charities before they donate include:

- "It is important to know that the money you donate is being used efficiently and effectively."
- "I don't want to donate to a CEO's third vacation home. I want to donate to the cause."
- "I will probably follow a similar process to the assignment."
- "I now have some charities in mind that I would love to donate to."

This paper presents a "plug & play" description of the activity which is easy to adopt. It includes reading comprehension questions that can be asked via a learning management system and a grading rubric to guide students and the professor in the creation of a charity review. I encourage you to incorporate this competition into your class.

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Appendix A: Assessing Reading Comprehension

Read "Can Money Buy You Happiness" and then answer the following questions:

1. Of people who earn between \$150,000 and \$250,000, what percent describe themselves as very satisfied with their life?

- a. 72%
- b. 90%
- c. 93%
- d. 100%
- e. 97%

Correct answer = b

Of the rest, 7% describe themselves as somewhat satisfied and 3% describe themselves as somewhat dissatisfied.

2. People underestimate the happiness-creating value of

- a. experiences; they believe, incorrectly, that experiences provide temporary happiness while material purchases provide longer-lasting happiness
- b. material purchases; they believe, incorrectly, that material purchases yield only temporary happiness
- c. money; they believe, incorrectly, that money is unrelated to happiness
- d. material purchases; they believe, incorrectly, that material purchases do not establish our social identity
- e. material purchases; they underestimate the value of purchases that allow us to socialize with others

Correct answer = a

Incorrect answers:

- b. People overestimate the happiness-creating value of material purchases; material purchases soon come to be taken for granted.
- c. The article says nothing about underestimating the happiness-creating value of money.
- d. It is experiences which give us a bigger part of our sense of identity.
- e. It is experiences which are shared w/ others not material purchases.

3. "Hedonic adaptation" refers to

- a. the pleasure someone derives from anticipating an experience.
- b. the pleasure someone derives from anticipating a material acquisition.
- c. taking a material acquisition for granted.
- d. the change in happiness resulting from comparing your experiences to similar experiences of someone you know.
- e. the change in happiness resulting from comparing your material purchase to similar acquisitions of someone you know.

Correct answer = c

Explanation of correct answer: a new purchase provides a brief thrill but we soon come to take it for granted—this is what makes it so hard to buy happiness

Incorrect answers:

- a. and b. The pleasure from anticipating an experience (planning a vacation) is greater than the pleasure from anticipating a material purchase (buying a truck) but neither of these refer to "hedonic adaptation."
- d. and e. Comparing your purchase (unfavorably) to a friend's decreases your happiness significantly; comparing your experience (unfavorably) to a friend's decreases your happiness by less. But neither of these refer to "hedonic adaptation."

4. Donating money to a charity

- a. increases happiness.
- b. increases happiness because it makes the donor feel successful and rich.
- c. increases happiness as long as the donor's income level is above \$10,000/year.
- d. increases happiness for donors from rich countries; it has no effect on the happiness level of donors who live in poor countries.
- e. increases your happiness proportionate to the amount you give; people who "give until it hurts" are the happiest.

Correct answer = a

Incorrect answers:

- b. They say nothing about why donating to charity makes you feel more happy.
- c. Giving away money consistently made people happier even when they themselves were

relatively poor.

- d. "People who donated money to charity were happier in poor and rich countries alike."
- e. "What matters in terms of happiness is not so much the \$ amount you give but the perceived impact of your donation."

5. Debt

- a. will increase overall happiness as long as the borrowed money is spent on experiences.
- b. has no effect on marital conflict.
- c. increases happiness in those under age 35 while it decreases happiness in those 35 or older.
- d. has a detrimental effect on happiness while savings and financial security tend to boost it.
- e. does not affect overall life satisfaction.

Correct answer = d

Incorrect answers:

- a. "If you go into debt to buy these great life experiences the stress you'll feel when the credit card bill comes in will probably wipe out the good that you got from the experience."
- b. Married couples more in debt had more marital conflict.
- c. Debt has a detrimental effect on happiness at all ages.
- e. It has a detrimental effect on happiness.

Read "The Trader Who Donates Half His Pay" and "Peter Singer on the Ethics of Philanthropy" and then answer the following questions:

1. Matt Wage

- a. is an aid-worker who distributes mosquito nets in Africa.
- b. founded GiveWell, a website that ranks charities based on their cost-effectiveness.
- c. donates approximately half of his pretax income to charities.
- d. believes that "charity begins at home"; you need to take care of your own needs, and the needs of those in your own country, before you address the needs of others.
- e. is the founder of the "effective altruism" movement.

Correct answer = c

He donated more than \$100,000 which is approximately half his pretax income.

Incorrect answers:

a. He is not an aid-worker, he is employed by an arbitrage trading firm on Wall Street; he believes he saves more lives via donations than he would as an aid worker.

b. This does describe GiveWell (charity ranker based on cost-benefit analysis) BUT Wage did not found GiveWell.

d. He gives to over-seas charities; that is where he believes his \$s go further.

e. He is an example of someone practicing effective altruism but not the founder.

2. Nicholas Kristof believes

a. the world would be a better place if more people practiced self-mortification.

b. once the world's more basic needs have been met then people should begin donating to the arts.

c. in donating to the universities that gave him scholarships.

d. Matt Wage would contribute more to world-wide well-being as an aid worker than as an arbitrage trader.

e. that "charity begins at home"; you need to take care of your own needs, and the needs of those in your own country, before you address the needs of others.

Correct answer = c

This can be the starting point for a discussion of student loans (which require re-payment) versus scholarships which the college hopes you "re-pay" via donations after you graduate.

Incorrect answers:

a. "I want to take my wife to dinner w/o guilt; I want to be able to watch a movie w/o worrying that I should instead be buying a bed net. There is more to life than self-mortification"—note that Wage still has \$100,000 to live-on; this doesn't really sound like self-mortification.

b. This is what Peter Singer believes—Kristof is uncomfortable with that idea & believes the arts are "noble" too.

d. "Wage may save more lives with his donations than if he had become an aid worker."

e. There is no discussion of "charity begins at home."

3. Peter Singer believes

a. the needs of people must be met before animal suffering is addressed.

b. a person can be considered to be ethical as long as he/she does not commit certain transgressions.

- c. David Geffen should be honored for his generous donation to the Lincoln Center.
- d. people should forego vacations and use the funds instead to improve the condition of mankind.
- e. the newly wealthy want evidence that charities are sending funds to where they are most needed.

Correct answer = e

This is the idea behind effective altruism.

Incorrect answers:

- a. "He still thinks that the suffering of animals is comparable to human suffering."
- b. "If you ask people what it means to live ethically it's a "thou shalt not" statement; you shouldn't cheat & you shouldn't lie. But if you're fortunate enough to be part of the more affluent billion in the world...you have to do something to help those that are less fortunate"... what about the other 2 billion? Do they just have to adhere to the list of "thou shalt not?"
- c. He does not understand how "anyone could think that giving to the renovation of a concert hall that could impact the lives of generally well-off people living in Manhattan and well-off tourists that come to NY could be the best thing you could do with \$100 million"... a donation of less than \$100 could restore sight to someone who is blind.
- d. He rationalizes his spending on vacations in the article: "We spend money on vacation that no doubt could do more elsewhere....we think it is worth making that time for the family."

Appendix B: The Charity Grading Rubric

	Points Possible	Points Awarded
Inform professor of your choice of charity	1	
Charity Mission: what problem(s) are they trying to solve? --go beyond the mission statement	3	
How the charity functions—how do they go about achieving their goals	4	
Why did you pick this particular charity	4	
Financials: program expenses, administrative expenses, fund-raising efficiency, fundraising expenses, total revenue, CEO compensation, star rating, financial/transparency graph	8	
Donor privacy policy	3	
Comparison to alternative charity; compare financials & explain why you didn't choose this alternative charity	4	
Sources	2	
Do you want to be considered for Round 2: Class Presentation?	1	
TOTAL	30	