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# Contract enforcement as a reference point for feelings of entitlement – experimental evidence

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## Abstract

This paper provides an experimental examination of the effect of contract enforcement on contractors' reference points for feelings of entitlement. Previous experiments by Fehr, Hart and Zehnder (AER 2011) analyse and support the theory by Hart and Moore (QJE, 2008) that contracts are reference points. Both theory and experiments ignore the role of contract enforcement for contractors' feelings of entitlement. I replicate and confirm Fehr, Hart and Zehnder's baseline experiment. I also run an additional treatment in which buyers can offer sellers more or less favourable prices than specified in the contract, whereas sellers can request enforcement of contracts as written. I find that contract enforcement matters, without being invoked, for sellers' punishment behaviour through feelings of entitlement. Without explicit contract enforcement, flexible contracts (agreement on a price range instead of a single price) leave sellers feel entitled to the best possible price permitted by the contract. However, buyers rarely offer such a price which leads to disappointment and punishment. With the option of contract enforcement, sellers feel entitled to the price which the court would enforce, even if it is equally unfavourable than in the no court treatment. The presence of the court provides an outside validation for which prices are reasonable and thereby limits disappointment and punishment.

**Keywords:** incomplete contracts, contract enforcement, feelings of entitlement, punishment

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