

Syllabus

Course Name

Behavioral Economics

Semester

Spring 2023 semester

Main Instructor

Aleksandr Levkun, Ph.D.

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Date

- Classes: May 1 – June 9, 2023
- Final exam week: June 12 – 16, 2023
- Make-up exam week: June 19 – 23, 2023

Time

- Lectures: Wednesday 7.00 - 8.30 a.m. CEST, Friday 7.00 - 7.45 a.m. CEST
- Exercise session: Friday 7.45 - 8.30 a.m. CEST

Office Hours

To be determined.

Course Overview

This course aims to acquaint students with the basics of main behavioral theories and empirical methods commonly used to test theoretical predictions. The knowledge obtained in this course may be useful for both professional life in the future and study strategies. Upon successful completion of this course, students should be able to:

- understand the conceptual framework of behavioral economics and its tools
- apply insights from psychology when predicting or analyzing economic decision-making
- critically discuss the assumptions of traditional economic theory.

Prerequisites

Microeconomics, probability theory, and statistics at an introductory level.

Course Requirements and Grading

Grades will be determined based on (i) four quizzes in Moodle (20%), (ii) activity during lectures and exercise sessions (10%), (iii) a report on a research paper (30%), and (iv) the final exam (40%). The recommended structure of the report, evaluation criteria, and a list of research papers to choose from will be provided at the beginning of the semester. The purpose of writing the report is to gain understanding of how to clearly formulate the predictions of standard economic and behavioral theory and to analyze research findings from a theoretical perspective. A general rule is that a student must have more than 50% of overall course results, and more than 50% on the final exam, to pass a DLP course and be awarded the CERGE-EI Foundation certificate. Incidents in which students are suspected of plagiarism or cheating will be reported.

Course Outline and Readings

References to papers discussed in class:

Week 1. Introduction to Behavioral Economics

Kahneman, D. and A. Tversky (eds.). 2000. Preface in "Choices, Values and Frames." *Cambridge University Press*.

Camerer, C. F., Loewenstein, G., and Rabin, M. (eds.). 2004. Chapter 1 in "Advances in Behavioral Economics." *Princeton University Press*.

Rabin, M. 1998. "Economics and Psychology." *Journal of Economic Literature*, 36(1). DellaVigna, S. 2009. "Psychology and Economics: Evidence from the Field." *Journal of Economic Literature*, 47(2).

Chetty, R. 2015. "Behavioral Economics and Public Policy: A Pragmatic Perspective." *American Economic Review*, 105(5), 1-33.

Week 2. Social Preferences

DellaVigna, S. 2009. "Psychology and Economics: Evidence from the Field." *Journal of Economic Literature*, 47(2), 315-72.

DellaVigna, S., List, J., and Malmendier, U. 2012. "Testing for Altruism and Social Pressure in Charitable Giving." *The Quarterly Journal of Economics* 127(1), 1-56.

Fehr, E. & Gächter, S. 2002. "Altruistic Punishment in Humans." *Nature* 415(6868): 137-140.

Gächter, S. 2004. "Behavioral Game Theory." *Blackwell Handbook of Judgment and Decision Making*, 485-503.

Gneezy, U. and List, J. 2006. "Putting Behavioral Economics to Work: Testing for Gift Exchange in Labor Markets Using Field Experiments." *Econometrica* 74(5), 1365-1384.

Güth, W., Schmittberger, R. and Schwarze, B. 1982. "An Experimental Analysis of Ultimatum Bargaining." *Journal of Economic Behavior and Organization*, 3(4), 367-388.

Levine, D.K. 1998. "Modeling Altruism and Spitefulness in Experiments." *Review of Economic Dynamics* 1(3), 593-622.

Rabin, M. 1993. "Incorporating Fairness into Game Theory and Economics." *American Economic Review* 83(5), 2181-1302.

Week 3. Intertemporal Choice and Time Inconsistency

Bryan, G., Karlan, D., and Nelson, S. 2010. "Commitment Devices." *Annual Review of Economics*, 2(1), 671-698.

DellaVigna, S. and Malmendier, U. 2006. "Paying Not to Go to the Gym." *American Economic Review*, 96(3): 694-719.

Frederick S., Loewenstein G., and T. O'Donoghue. 2002. "Time Discounting and Time Preference: A Critical Review." *Journal of Economic Literature*, 40(2), 351-401.

Laibson D. 1997. "Golden Eggs and Hyperbolic Discounting." *Quarterly Journal of Economics*, 112(2), 443-477.

Loewenstein, G. and Prelec, D. 1992. "Anomalies in Intertemporal Choice: Evidence and an Interpretation." *The Quarterly Journal of Economics*, 107(2), 573-597.

O'Donoghue, T., and Rabin, M. 1999. "Doing It Now or Later." *American Economic Review*, 89(1), 103-124.

Thaler, R. 1981. "Some Empirical Evidence on Dynamic Inconsistency." *Economics Letters*, 8, 201-207.

Thaler, R., and Shefrin, H. 1981. "An Economic Theory of Self-Control." *Journal of Political Economy*, 89(2), 392-406.

Thaler, R. and Benartzi, S. 2004. "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving." *Journal of Political Economy*, 112, 164-187.

Week 4. Prospect Theory, Reference-Dependent Utility

Ariely, D., Loewenstein, G., and Prelec, D. 2003. "'Coherent Arbitrariness': Stable Demand Curves Without Stable Preferences." *The Quarterly Journal of Economics*, 118(1), 73-106.

Kahneman, D. 2003. "Maps of Bounded Rationality: Psychology for Behavioral Economics." *American Economic Review*, 93(5), 1449-1475.

Kahneman, D. 2011. "Thinking, Fast and Slow." *Macmillan*.

- Kahneman, D., and Tversky, A. 1979. "Prospect Theory: An Analysis of Decision Under Risk." *Econometrica*, 47(2), 263-292.
- Kahneman, D., Knetsch, J. L., and Thaler, R. H. 1991. "Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias." *Journal of Economic Perspectives*, 5(1), 193-206.
- Kőszegi, B. and Rabin, M. 2006. "A Model of Reference-Dependent Preferences." *Quarterly Journal of Economics*, 121(4), 1133-1165.
- Kőszegi, B. and Rabin, M. 2007. "Reference-Dependent Risk Attitudes." *American Economic Review*, 97(4), 1047-1073.
- Pope, D. and Schweitzer, M. 2011. "Is Tiger Woods Loss Averse? Persistent Bias in the Face of Experience, Competition, and High Stakes." *American Economic Review*, 101(1), 129-157.
- Plott, C. and Zeiler, K. 2005. "The WTP-WTA Gap, The Endowment Effect, Subject Misconceptions, and Experimental Procedures for Eliciting Valuations." *American Economic Review*, 95(3), 530-545.
- Thaler, R. 1980. "Toward a Positive Theory of Consumer Choice." *Journal of Economic Behavior and Organization*, 1, 39-60.
- Tversky, A. and Kahneman, D. 1974. "Judgment Under Uncertainty: Heuristics and Biases." *Science*, 185, 1124-1131.

Week 5. Heuristics and Biases Behavioral Finance

- Barber, B. and Odean, T. 2000. "Trading is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors." *Journal of Finance*, 55(2), 773-806.
- Barberis, N., Shleifer, A., and Vishny, R. 1998. "A Model of Investor Sentiment." *Journal of Financial Economics*, 49(3), 307-343.
- Barberis, N. and Thaler, R. 2003. "A Survey of Behavioral Finance." *Handbook of Economics and Finance*, 1(18), 1053-1128.
- Benartzi, S. and Thaler, R. 2001. "Naïve Diversification Strategies in Defined Contribution Saving Plans." *American Economic Review*, 90(1).
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- Camerer, C. 1989. "Does the Basketball Market Believe in the 'Hot Hand'?" *American Economic Review*, 79(5), 1257-1261.
- Gilovich, T., Vallone, R., and Tversky, A. 1985. "The Hot Hand in Basketball: On the Misperception of Random Sequences." *Cognitive Psychology*, 17, 295-314.
- Kahneman, D. and Tversky, A. 1972. "Subjective Probability: A Judgment of Representativeness." *Cognitive Psychology*, 3, 430-454.
- Kahneman, D., Slovic P., and Tversky, A. (eds). 1982. "Judgment Under Uncertainty: Heuristics and Biases." *Cambridge University Press*.
- Kruger, J. and Dunning, D. 1999. "Unskilled and Unaware of It: How Difficulties in Recognizing One's Own Incompetence Lead to Inflated Self-Assessments." *Journal of Personality and Social Psychology*, 77(6), 1121-1134.
- Odean, T. 1998. "Are Investors Reluctant to Realize Their Losses?" *Journal of Finance*, 53(6), 1887- 1934.
- Rabin, M. 2002. "Inference By Believers in the Law of Small Numbers." *Quarterly Journal of Economics*.
- Tversky, A. and Kahneman, D. 1971. "Belief in the Law of Small Numbers." *Psychological Bulletin*, 76, 105-110.
- Weinstein, N. 1980. "Unrealistic Optimism About Future Life Events." *Journal of Personality and Social Psychology*, 39(5), 806-820.

Week 6. Attention and Information Acquisition

- Bartoš, V., Bauer, M., Chytilová, J., and Matějka, F. 2016. "Attention Discrimination: Theory and Field Experiments With Monitoring Information Acquisition." *American Economic Review*, 106(6), 1437-75.
- Bénabou, R., and Tirole, J. 2016. "Mindful Economics: The Production, Consumption, and Value of Beliefs." *Journal of Economic Perspectives*, 30(3), 141-64.
- Chetty, R., Looney, A., and Kroft, K. 2009. "Salience and Taxation: Theory and Evidence." *American Economic Review*, 99(4), 1145-77.
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Golman, R., Hagmann, D., and Loewenstein, G. 2017. "Information Avoidance." *Journal of Economic Literature*, 55(1), 96-135.

Golman, R., Loewenstein, G., Molnar, A., and Saccardo, S. 2021. "The Demand for, and Avoidance of, Information." SSRN Working Paper No. 2149362.

Mackowiak, B., Matejka, F., and Wiederholt, M. 2021. "Rational Inattention: A Review." ECB Working Paper