BEHAVIORAL ECONOMICS

6 module, 2022/2023 academic year

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Course information

Course Website: TBA

Instructor's Office Hours: by appointment

Class Time: TBA

Room Number: TBA

TAs: TBA

Course description

This course covers main topics -both theoretical and empirical- of behavioral economics. The primary focus will be on the use of behavioral economics models to explain real life phenomena. It consists from 14 lectures and 6 seminars.

Course requirements, grading, and attendance policies

Prerequisites: Micro 1-5, Econometrics 1-2.
Final grade is based on two problem sets, referee report on academic paper and written final exam. Make up will be hold in written form too.

Course contents

The course will cover several models of behavioral economics, such as reference dependent utilities, different types of reference points, time inconsistency, projection bias, incorrect beliefs etc.

Description of course methodology

Every class will be accompanied with lecture notes. Problem sets will consist with mainly theoretical questions.

Sample tasks for course evaluation

TASK 1

Братья Петя, Ваня и Андрей ходят в кино по субботам. У них есть деньги только на 4 фильма из пяти которые показывают в этом месяце (так уж получилось что в этом месяце пять суббот). У них одинаковые полезности от фильмов которые представлены в таблице. Все имеют полезности $U_t = u_t + \beta \sum (0.9999)^i u_{t+i}$.
Петя time consistent, Ваня sophisticated time inconsistent ($\beta = \beta^* = 1/2$) и Андрей naive time inconsistent ($\beta = 1/2, \beta^* = 1$).
В решении можете заменять $\delta = 0.9999$ на $\delta = 1$ когда это не принципиально.

Полезности от походов в кино следующие

1я суббота 3

2я суббота 3

3я суббота 5

4я суббота 8

5я суббота 13

a) В какой день Петя не пойдет в кино?
b) В какой день Ваня не пойдет в кино?
c) В какой день Андрей не пойдет в кино?

TASK 2

Оля идет покупать на рынок туфли. Она ожидает что на рынке возможны две цены ($p_l = 4$, $p_h = 10$) , вероятность $\Pr(p = p_h) = 0.5$. Олина полезность $u(c1,c2;r1,r2) = vc1 + n(v(c1-r1)) - c2 + n(r2-c2)$. Здесь c1 туфли (1 если купила, 0 если нет) , c2 деньги. Gain-loss полезность $n(x) = x$ for $x > 0$ and $n(x) = \lambda x$ for $x < 0$. Ценность туфель v равна 12 .
Reference Points- ее *ожидания* относительно количества денег которые он потратит и туфель которые она купит.
a) Пусть loss aversion $\lambda = 1$. Как себя будет вести Оля когда придет на рынок?
Далее пусть $\lambda = 2$.
b) Опишите самоподдерживающие (равновесные) стратегии Оли.

Course materials

Required textbooks and materials

Key literature:
Lecture Slides
Lecture notes
Papers

Kahneman and Tversky, eds., Choices, Values, and Frames, 2000
Rabin, Matthew, „„Psychology and Economics"" JEL 1998
Camerer, Loewenstein, and Rabin, eds. 2003, „„Advances in Behavioral Economics"" „„
Stefano DellaVigna: „„Psychology and Economics: Evidence from the Field"", JEL 2009

Plus

Rabin, Matthew. (2013): "An Approach to Incorporating Psychology into Economics." *American Economic Review Papers and Proceedings,* 103(3): 617-622.

Rabin, Matthew. (2013): "Incorporating Limited Rationality into Economics," *Journal of Economic Literature*, 51(2): 528-543

Chetty, Raj (2015), "Behavioral Economics and Public Policy: A Pragmatic Perspective," Richard T. Ely Lecture, *American Economic Review: Papers & Proceedings 2015, 105(5): 1–33.*

Koszegi, B. (2006): "Emotional Agency," *Quarterly Journal of Economics,* 121(1): 121-155.

Koszegi, B. and M. Rabin. (2006): "A Model of Reference-Dependent Preferences," *Quarterly Journal of Economics*, 121(4), 1133-1166.

Koszegi, B. and M. Rabin. (2007): "Reference-Dependent Risk Preferences," *American Economic Review,* 97(4), 1047-1073.

Charness, G. and Rabin, M. (2002): "Understanding Social Preferences with Simple Tests," *Quarterly Journal of Economics*, 117 (3): 817-869.

Dana, J., R. Weber, and J. Kuang. (2007): "Exploiting moral wriggle room: experiments demonstrating an illusory preference for fairness." *Economic Theory, 33*, 67–80.

Gul, F. and W. Pesendorfer (2001): "Temptation and Self-Control," *Econometrica*

Rabin, Matthew and Georg Weizsäcker. (2009): "Narrow Bracketing and Dominated Choices," *American Economic Review*, 99 (4): 1508-1543.

Frederick, S., Loewenstein, G. and O'Donoghue, T. (2002), "Time discounting and time preference: A critical review," *Journal of Economic Literature,* 40 (2): 351-401.

O'Donoghue, Ted and M. Rabin. (1999): "Doing it now or later." *American Economic Review,* 89(1), 103–124.

O'Donoghue, T. and M. Rabin. (2001): "Choice and Procrastination," *Quarterly Journal of Economics*, 116(1), 121-160.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.

DETAILED PLAN
I follow Mattew Rabin (Clark medal laureate) lectures and plan

Lecture 1. Reference dependent Utility

Review of works of Nobel Prize winner: R. Thailer
Short introduction to the course

Lecture 2. Reference dependent Utility

Introduction to belief-based preferences
Anticipatory utility and ego utility
Belief-based preferences and personal equilibrium
Introduction to Reference dependence and Prospect Theory

Lecture 3. Reference dependent Utility
Reference-dependent risk attitudes
Reference-dependence: expectations as the reference point

Lecture 4. Reference dependent Utility
Reference dependence and news utility
Introduction to social preferences, and distributional social preferences

Lecture 5
Reciprocal preferences, self-image, social image
Choice-set-dependent preferences

Lecture 6
Focusing and bracketing effects
Context effects and choice-set-dependent distortions

Lecture 7 . Time inconsistency
Introduction to mispredicting preferences
Misprediction of future utility: principles and evidence
Misprediction of future utility: modeling and applications

Lecture 8: Time inconsistency
Principles of present-biased preferences and procrastination
Introduction to biases in judgment and quasi-Bayesian models

Lecture 9
Sampling biases

Lecture 10:
Problems and challenges in non-Bayesian models
Introduction to social inference and non-inference

Lecture 11-Lecture 14. Evidence from the Field.
Empirical papers on behavioral economics.
Literature
Stefano DellaVigna: „„Psychology and Economics: Evidence from the Field‟‟‟, JEL 2009