BEHAVIORAL ECONOMICS

Module 3, 2022/23

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Course information

Course Website: Dropbox folder will be used to distribute course materials; enlisted students will have a link

Instructor's Office Hours: by request

Class Time: Thursday, 18:10-21:00 (with a 10-minute break)

Room Number: 401

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Course description

A dominant approach in mainstream economics is based on the neoclassical paradigm, dealing with rational economic agents who have an adequate worldview, stable preferences and always make optimal decisions. However, well documented systematic deviations from rationality call into question universality of this method. "Behavioral Economics" is a relatively new field that that suggests an alternative to the fully rational economics. A unifying feature of the different research programs associated with it is an attempt to bring psychological realism to economic analysis. Some contributions, mostly the earlier ones, focus on documenting the systematic departures of the actual human behavior from the one predicted by mainstream economic models. Others incorporate more realistic, psychologically grounded assumptions into economic models to investigate their implications. Yet others are interested in explaining seemingly irrational behavior using tools of economics and game theory with some minor departures from conventional assumptions.

The course is somewhat eclectic. We shall both discuss theoretical models and look at many empirical (mostly, experimental) results. There is no textbook, all references will be to recent papers published in the leading international journals or yet unpublished.

Course requirements, grading, and attendance policies

For mastering the course one needs to have sound knowledge of intermediate microeconomics, game theory and econometrics.

Grading: participation in online experiments (15%), written essay (20%), presentation of the essay (20%), evaluation of peers' presentations (10%), final exam (35%). The format of retake is the same as that of the final test.

To pass the course, one should score at least 30 points (out of 100) for the exam and at least 40 (out of 100) points for the essay and 40 (out of 100) points for the presentation.

Essay is to be based on a paper chosen by the student from a suggested list of papers (that will be distributed, as well as detailed guidelines). **Essay is to be written by a team of 3 students**. The essay should briefly communicate the main ideas and results (with intuition) of the paper it is based on, report a constructive critique of the paper and, eventually, contain a brief original extension done by the student(s). Normally the essay should be 5-15 pages long.

Presentation is to be prepared in the same teams.

Each student will be required to take part in **evaluating two peers' presentations**, which includes asking the presenters at least one question and submitting a very short summary of key take-aways from the presentation along with the list of questions. At least one of the evaluated presentations should take place in the date different from when one's own presentation is delivered.

Final exam will contain questions and problems. The previous year exam can be found below in the sample tasks' section.

Course contents

1. Introduction
Reading: Tirole (2002)
Additional reading: Rabin (2002), Fehr and Falk (2002), Camerer et al. (2004), Kahneman and Tversky (2000).

2. Reference-dependent utility, loss aversion; framing effects. Endowment effect. Endogenous reference standards.
Reading: Kahneman and Tversky (1979), Kahneman, Knetsch and Thaler (1990), Plott and Zeiler (2005), Camerer et. al. (1997), Farber (2005), Kőszegi and Rabin (2006).
Additional reading: List (2003), Kahneman and Tversky (2000), Goette, Huffman and Fehr (2004), Falk and Knell (2004).

3. Attitude to information. Beliefs as an argument of utility functions. Heuristics and biases
Reading: Akerlof and Dickens (1982), Kőszegi (2006), Ariely et al. (2003), Frederick (2005).
Additional reading: Eliaz and Spiegler (2006), Brocas and Carrillo (2004).

4. Social preferences: fairness, reciprocity, social signaling.
Reading: Fehr and Schmidt (2003), Fehr and Falk (2002), Bernheim (1994).
Additional reading: Kahneman, Knetsch and Thaler (1986), Charness and Rabin (2002), Dana-Weber-Kuang (2003).

5. Intertemporal choice, self-control. Imperfect memory. Overconfidence.
Reading: O'Donohgue and Rabin (1999), Benabou and Tirole (2002), Laibson (1997), Van de Steen (2005).
Additional reading: Hirshlefer and Welch (2002), Fudenberg and Levine (2004), Biais et al. (2005).

6. Incentives, motivation.
Reading: Benabou and Tirole (2003), Fehr and Falk (2002).
Additional reading: Gneezy and Rustichini (2000a, 2000b).

7. Some applications. Miscellaneous topics.
Reading: Laibson (1997), Benartzi-Thaler (2001), Mullainathan and Shleifer (2005).
Additional reading: Thaler (1999).

Sample tasks for course evaluation

Sample exam questions:
Here's the link to a previous exam:
https://docs.google.com/forms/d/e/1FAIpQLSf1LozollD8mOFZf3bTJUTEBuKPet3V-MtlDFzSZrRPjZsrPQ/viewform, but the structure and difficulty may be somewhat different.

Course materials

References

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Academic integrity policy

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