

## **BEHAVIORAL ECONOMICS**

**1 module, 2019/2020 academic year**

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### **Course information**

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**Course Website:** TBA

**Instructor's Office Hours:** by appointment

**Class Time:** TBA

**Room Number:** TBA

**TAs:** TBA

### **Course description**

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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**

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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**

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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

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### 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  $U_t = u_t + \beta \sum_{i=1}^{\infty} (0.9999)^i u_{t+i}$ .

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

- В какой день Петя не пойдет в кино?
- В какой день Ваня не пойдет в кино?
- 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  $u(c_1, c_2; r_1, r_2) = v c_1 + n(v(c_1 - r_1)) - c_2 + n(r_2 - c_2)$ . Здесь  $c_1$  туфли (1 если купила, 0 если нет),  $c_2$  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.

- Пусть loss aversion  $\lambda = 1$ . Как себя будет вести Оля когда придет на рынок? Далее пусть  $\lambda = 2$ .
- Опишите самоподдерживающиеся (равновесные) стратегии Оли.

## Course materials

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### 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**

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

## **DETAILED PLAN**

I follow Matthew Rabin (Clark medal laureate) lectures and plan

### **Lecture 1. Reference dependent Utility**

Review of works of Nobel Prize winner: R. Thaler  
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