

Behavioral Economics

Academic Year 2022-2023 Term 2

Instructors: Jin Sohn and Tong Wang

Time and location: Mondays, 8:00, Boxue Building 313

Language: English (Chinese only if necessary)

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Office hours: by appointment

Course objectives

This course introduces behavioral economics research topics. It will be taught seminar-style, with lectures about classic behavioral economics literature and interactive presentations of recent research. The main learning objectives of the course include:

1. Grasp the basic foundations of behavioral economics;
2. Develop hands-on experience on how to design economic experiments;
3. Learn how to critically discuss research and to present own research ideas.

Grading

The final grade (100pt) will be calculated as

- 10pt: classroom participation;
- 20pt: 2 presentations of recent research (10pt each, 2 students per group, 30min);
- 30pt: 2 referee reports (15pt each, individual, around 2 pages);
 - Check this: Berk, Jonathan B., Campbell R. Harvey, and David Hirshleifer (2017), "How to Write an Effective Referee Report and Improve the Scientific Review Process." *Journal of Economic Perspectives*, 31(1), 231-244.
 - **Deadline: Jul. 3 (Monday), 23:59.**
- 40pt: research proposal (individual, around 10-20 pages).
 - Should have: introduction, literature review / theoretical framework, methodology (experimental design and analysis plan), possible conclusions.
 - **Deadline: Jul. 3 (Monday), 23:59.**

Classroom etiquette

- Arrive on time and prepare your slides beforehand in case of presentations.
- Academic integrity: no copying, cheating, plagiarizing.
- Work together and be a team player.
- Be open, critical, and constructive.

Weekly plan

Week	Date	Topic	instructor(s)
1	Feb. 27	Introduction	Jin Sohn Tong Wang
2	Mar. 6	Decision making under risk and uncertainty (1)	Tong Wang
3	Mar. 13	Decision making under risk and uncertainty (2)	Tong Wang
4	Mar. 20	Decision making under risk and uncertainty: presentations [3 slots]	Tong Wang
5	Mar. 27	Time preferences (1)	Tong Wang
6	Apr. 3	Time preferences (2)	Tong Wang
7	Apr. 10	Time preferences: presentations [3 slots]	Tong Wang
8	Apr. 17	Biases in beliefs	Tong Wang
9	Apr. 24	Biases in belief: presentations [2 slots] Behavioral economics in policies (1)	Tong Wang
10	May 1 → Apr. 25	Behavioral economics in policies (2)	Tong Wang
11	May 8	Behavioral economics in policies: presentation [1 slot] Behavioral finance	Tong Wang
12	May 15	Social behavior in economics Presentation [1 slot]	Jin Sohn
13	May 22	Other-regarding preferences 1: Distributional preferences Presentation [1 slot]	Jin Sohn
14	May 29	Other-regarding preferences 2: Psychological game theory Presentation [1 slot]	Jin Sohn
15	Jun. 5	Level-k theory Presentation [1 slot]	Jin Sohn
16	Jun. 12	Some recent developments	Jin Sohn
17	Jun. 19	Presentations of research proposal [6 slots]	Jin Sohn Tong Wang
18	Jun. 26	Presentations of research proposal [6 slots]	Jin Sohn Tong Wang

Reading list

There is no required textbook, but a list of papers to supplement the lecture slides. Papers in green are for presentations.

Lecture 1 | Introduction

- Loewenstein, George (1999), "Experimental Economics from the Vantage-Point of Behavioral Economics" *Economic Journal*, 109, 25-34.
- Thaler, Richard H. (2016), "Behavioral Economics: Past, Present, and Future" *American Economic Review*, 106(7), 1577-1600.
- Harrison, Glenn W. and John A. List (2004), "Field Experiments" *Journal of Economic literature*, 42(4), 1009-1055.
- Gabaix, Xavier and David Laibson (2008), "The Seven Properties of Good Models" *The Foundations of Positive and Normative Economics: A Handbook*, 292-319.

Lectures 2-3 | Decision making under risk and uncertainty

- Kahneman, D. and Tversky, A. (1979). Prospect Theory: An Analysis of Decision Under Risk. *Econometrica*, 47, 263-292.
- Kahneman, D., Knetsch, J. and Thaler, R. (1991). Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias. *Journal of Economic Perspectives*, 5, 193-2006.
- Thaler, R. (1999). Mental Accounting Matters. *Journal of Behavioral Decision Making*, 12, 183-206.
- DellaVigna, Stefano (2009), "Psychology and Economics: Evidence from the Field" *Journal of Economic Literature*, 47(2), 315-372. **[Sections 2.2.2, 2.2.5 and 2.2.6 only]**
- Barberis, N. (2013). Thirty Years of Prospect Theory: A Review and Assessment. *Journal of Economic Perspectives*, 27, 173-196.
- **[slot 1]** Camerer, Colin, et al. (1997), "Labor Supply of New York City Cabdrivers: One Day at a Time." *Quarterly Journal of Economics*, 112(2), 407-441.
- **[slot 2]** Genesove, David and Christopher Mayer (2001), "Loss Aversion and Seller Behavior: Evidence from the Housing Market." *Quarterly Journal of Economics*, 116(4), 1233-1260.
- **[slot 3]**
 - List, John A. (2003), "Does Market Experience Eliminate Market Anomalies?" *Quarterly Journal of Economics*, 118(1), 41-71.
 - List, John A. (2004), "Neoclassical Theory versus Prospect Theory: Evidence from the Marketplace" *Econometrica*, 72(2), 615-625.

Lectures 5-6 | Time preferences

- Loewenstein, G. and Thaler, R. (1989). Anomalies: Intertemporal Choice. *Journal of Economic Perspectives*, 3, 181-193.
- O'Donoghue, Ted, and Matthew Rabin (2000), "The Economics of Immediate Gratification" *Journal of Behavioral Decision Making*, 13, 233-250.
- Read, D., Frederick, S., Orsel, B. and Rahman, J. (2005). Four Score and Seven Years from Now: The Date/Delay Effect in Temporal Discounting. *Management Science*, 51, 1326-1335.

- **[slot 1]** DellaVigna, Stefano and Ulrike Malmendier (2006), "Paying Not to Go to the Gym" *American Economic Review*, 96(3), 694-719.
- **[slot 2]** Ariely, Dan and Wertenbroch, K. (2002), "Procrastination, Deadlines, and Performance: Self-Control by Precommitment" *Psychological Science*, 13, 219-224.
- **[slot 3]** Kaur, Supreet, Michael Kremer, and Sendhil Mullainathan (2015), "Self-Control at Work" *Journal of Political Economy*, 123(6), 1227-1277.

Lectures 8 | Biases in beliefs

- Tversky, Amos and Daniel Kahneman (1974), "Judgment under Uncertainty: Heuristics and Biases" *Science*, 185(4157), 1124-1131.
- Moore, Don A. and Paul J. Healy (2008), "The Trouble with Overconfidence" *Psychological Review*, 115(2), 502-517.
- Bordalo, Pedro, Katherine Coffman, Nicola Gennaioli, and Andrei Shleifer (2016), "Stereotypes" *Quarterly Journal of Economics*, 131(4), 1753-1794.
- **[slot 1]** Cowgill, Bo and Eric Zitzewitz (2015), "Corporate Prediction Markets: Evidence from Google, Ford, and Firm X" *Review of Economic Studies*, 82(4), 1309-1341.
- **[slot 2]** Wang, Tong V., et al. (2016), "Number Preferences in Lotteries" *Judgment and Decision Making*, 11(3), 243-259.

Lecture 9-10 | Behavioral economics in policies

- Thaler Richard H, and Cass R Sunstein (2003), "Libertarian paternalism," *The American Economic Review*, 93-2.
- **[slot]** DellaVigna, Stefano and Elizabeth Linos (2022), "RCTs to Scale: Comprehensive Evidence from Two Nudge Units." *Econometrica* 90.1: 81-116.

Lecture 11 | Behavioral finance

- Benartzi, Shlomo, and Richard H. Thaler (1995), "Myopic Loss Aversion and the Equity Premium Puzzle" *Quarterly Journal of Economics*, 110(1), 73-92.
- Gneezy, U. and Potters, J. (1997). An Experiment on Risk Taking and Evaluation Periods. *Quarterly Journal of Economics*, 112, 631-645.
- Shefrin, Hersch, and Meir Statman (1985), "The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence" *Journal of finance*, 40(3), 777-790.

Lecture 12 | Social Behavior in Economics

- Thaler, Richard H. "Anomalies: The ultimatum game." *Journal of economic perspectives* 2.4 (1988): 195-206.
- **[slot]** Güth, Werner, Rolf Schmittberger, and Bernd Schwarze. "An experimental analysis of ultimatum bargaining." *Journal of economic behavior & organization* 3.4 (1982): 367-388.
- Bolton, Gary E., Elena Katok, and Rami Zwick. "Dictator game giving: Rules of fairness versus acts of kindness." *International journal of game theory* 27.2 (1998): 269-299.
- Fischbacher, Urs, Simon Gächter, and Ernst Fehr. "Are people conditionally cooperative? Evidence from a public goods experiment." *Economics letters* 71.3 (2001): 397-404.

Lecture 13 | Other-regarding Preferences 1: Distributional Preferences

- [slot] Fehr, Ernst, and Klaus M. Schmidt. "A theory of fairness, competition, and cooperation." *The quarterly journal of economics* 114.3 (1999): 817-868.
- Bolton, Gary E., and Axel Ockenfels. "ERC: A theory of equity, reciprocity, and competition." *American economic review* 90.1 (2000): 166-193.

Lecture 14 | Other-regarding Preferences 2: Psychological Game Theory

- [slot] Geanakoplos, John, David Pearce, and Ennio Stacchetti. "Psychological games and sequential rationality." *Games and economic behavior* 1.1 (1989): 60-79.
- Dufwenberg, Martin, and Georg Kirchsteiger. "A theory of sequential reciprocity." *Games and economic behavior* 47.2 (2004): 268-298.

Lecture 15 | Level-k Theory

- [slot] Nagel, Rosemarie. "Unraveling in guessing games: An experimental study." *The American economic review* 85.5 (1995): 1313-1326.
- Crawford, Vincent P., Miguel A. Costa-Gomes, and Nagore Iriberry. "Structural models of nonequilibrium strategic thinking: Theory, evidence, and applications." *Journal of Economic Literature* 51.1 (2013): 5-62.
- Arad, Ayala, and Ariel Rubinstein. "The 11-20 money request game: A level-k reasoning study." *American Economic Review* 102.7 (2012): 3561-73.

Lecture 16 | Some Recent Developments

- Schaefer, Alexander, and Jin-yeong Sohn. "Unravelling into war: trust and social preferences in Hobbes's state of nature." *Economics & Philosophy* 38.2 (2022): 171-205.