Syllabus

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Course: Behavioral Economics I
Professor:

2016 SECOND SEMESTER

PROGRAM

Standard economic models usually assume that agents are perfectly rational. In many cases, however, experimental evidence suggests that such assumptions might not be valid. In Behavioral Economics, some assumptions from standard models are replaced by alternative assumptions based on Psychological research. The goal then is to understand how behavioral biases affect individual behavior, and what are the implications of such behavioral biases for the workings of markets and policy. It is important to note that we continue to employ mainstream economic methods. We just incorporate in the models assumptions that are more in line with the experimental evidence. As emphasized by Rabin (2002), *"[...] this research is not an alternative to the economic research program into which we were all socialized in graduate school, but the natural continuation of this research program."*

In this course, we will cover (1) experimental evidence on behavioral biases, (2) how such behavioral biases affect individual decision making, (3) how such behavioral biases affect the workings of markets and policy, and (4) empirical evidence that such behavioral biases are relevant in the field.

The topics that will be covered in Behavioral Economics I are:

1. Prospect theory, Framing, and Mental Accounting
2. Self-control and time inconsistency
3. Social preferences
4. Non-standard beliefs
5. Non-standard decision making
6. Self-signaling and self-deception

BIBLIOGRAPHY

This course will be based on academic papers to be defined throughout the semester. Some useful surveys are:

- Stefano DellaVigna. Psychology and economics: Evidence from the field. Journal of Economic Literature, 47(2):315–72, June 2009.

- Matthew Rabin. A perspective on psychology and economics. European Economic Review, 46(4-5):657–685, May 2002.

- Nicholas Barberis and Richard Thaler. A survey of behavioral finance. In G.M. Constantinides,M. Harris, and R. M. Stulz, editors, Handbook of the Economics of Finance, volume 1 of Handbook of the Economics of Finance, chapter 18, pages 1053–1128. Elsevier, 2003.

- Brad M. Barber, Terrance Odean, Chapter 22 - The Behavior of Individual Investors, In: George M. Constantinides, Milton Harris and Rene M. Stulz, Editor(s), Handbook of the Economics of Finance, Elsevier, 2013, Volume 2, Part B, Pages 1533-1570

There are also some non-academic books that might be interesting:

- D. Kahneman. Thinking, Fast and Slow. Farrar, Straus and Giroux, 2011.
- D. Ariely. Predictably Irrational. Harpercollins, 2009.
- D. Ariely. The Upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home. HarperCollins, 2010.
- R.H. Thaler and C.R. Sunstein. Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press, 2008.
- R.H. Thaler. The winner's curse: paradoxes and anomalies of economic life. Russell Sage Foundation Study. Free Press, 1992.

GRADING

- Exam (50%)
- Research proposal (50%)

PROFESSOR - EMAILS