

BEHAVIORAL ECONOMICS

Instructor: Yusuf Emre Akgündüz (FASS Room 2017)

Office hours: Monday 9:00 – 12:00 and Wednesday 9:00 – 12:00 – can set up meetings over zoom.

Examinations: During class on Tuesday Week 8 Midterm Final TBA

Course Content

This course aims to introduce the field of behavioral economics. Behavioral economics has garnered significant attention as a field by adapting the standard economic framework to better fit empirical findings using insights from psychology. The course outline is designed to provide a general introduction to the four main subjects in behavioral economics, namely: reference dependence, heuristics, state-dependent preferences (i.e. habit formation) and social preferences. We will conclude the course with several applications of behavioral economics in labor markets and the measurement of subjective well-being.

The course does require some pre-knowledge of microeconomics and game theory. Depending on demand, there may be refreshers about the required background knowledge during the appropriate weeks.

Important: I will generally be physically in class to give the lectures, depending on the course of the pandemic, we may do some of the classes completely online. For this semester, please keep good track of the SUCOURSE announcements tab, I will provide any updates to the scheduling there.

Reading:

There is a considerable reading list, but it is more important that you understand the basic concepts rather than read through each text carefully. The books below can serve as reference points but are optional. For each part, I noted the corresponding chapter in the Cartwright book in the course contents below.

Cartwright, Edward. *Behavioral economics*. Routledge, 2018.

Kahneman, Daniel. *Thinking, fast and slow*. Macmillan, 2011.

Grading:

Midterm exam (30%)

Final exam (30%)

Quizzes and attendance (20%)

Group assignment (20%)

The final exam will focus on the second half of the course. Make-up exams are possible if you have a valid excuse but may be more difficult. I plan to make the exams physical. Quizzes will be given in class on Tuesday and will be relatively short. They aim to measure attention rather than being difficult. There will be an assignment announcement in week 8 (after mid-term), where you will be required to prepare a presentation on a behavioral economics related topic. I will use the standard SU categorical grading scheme.

Course Outline:

The plan below provides a rough outline for the course. Not all required readings will receive the same degree of attention. You will only be responsible for topics covered in class. Lecture slides will be made available each week.

Part 0: Refresher on microeconomics and utility theory

- See any microeconomics textbook, i.e. *Intermediate Microeconomics* by Hal R. Varian.

Part 1: Introduction to behavioral economics

- Oster, E., Shoulson, I., & Dorsey, E. (2013). Optimal expectations and limited medical testing: evidence from Huntington disease. *American Economic Review*, 103(2), 804-30.
- Ashraf, N., Camerer, C. F., & Loewenstein, G. (2005). Adam Smith, behavioral economist. *Journal of Economic Perspectives*, 19(3), 131-145.
- Cartwright chapter 1.

Part 2: Prospect theory and reference dependence

- Sydnor, J. (2010). (Over) Insuring modest risks. *American Economic Journal: Applied Economics*, 2(4), 177-99.
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 363-391.
- Cartwright chapter 3.

Part 3: Heuristics and biases

- Benartzi, S., & Thaler, R. (2007). Heuristics and biases in retirement savings behavior. *Journal of Economic perspectives*, 21(3), 81-104.
- Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *Science*, 185(4157), 1124-1131.
- Cartwright chapter 2.

Part 4: Hyperbolic discounting

- O'Donoghue, T., & Rabin, M. (1999). Doing it now or later. *American Economic Review*, 89(1), 103-124.
- Frederick, S., Loewenstein, G., & O'donoghue, T. (2002). Time discounting and time preference: A critical review. *Journal of Economic Literature*, 40(2), 351-401.
- Cartwright chapter 4.

Part 5: Social Preferences

- Fong, C. (2001). Social preferences, self-interest, and the demand for redistribution. *Journal of Public Economics*, 82(2), 225-246.
- Charness, G., & Rabin, M. (2002). Understanding social preferences with simple tests. *The Quarterly Journal of Economics*, 117(3), 817-869.
- Cartwright chapter 7.

Part 6: Behavioral Economics in Labor Economics

- Borghans, L., Duckworth, A. L., Heckman, J. J., & Ter Weel, B. (2008). The economics and psychology of personality traits. *Journal of human Resources*, 43(4), 972-1059.
- DellaVigna, S., & Paserman, M. D. (2005). Job search and impatience. *Journal of Labor Economics*, 23(3), 527-588.

Part 7: Happiness and Policy Implications of Behavioral Economics

- Kahneman, D., & Krueger, A. B. (2006). Developments in the measurement of subjective well-being. *Journal of Economic Perspectives*, 20(1), 3-24.
- Chetty, R. (2015). Behavioral economics and public policy: A pragmatic perspective. *American Economic Review*, 105(5), 1-33.
- Cartwright chapters 10-11.