

**Sabanci University**  
**Faculty of Arts and Social Sciences**  
**Econ 312: Behavioral Economics**

**INSTRUCTOR:**

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Please use e-mail to leave messages rather than voice-mail.

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**COURSE CONTENT**

This course is an introduction to behavioral economics. Behavioral economics aims to adapt the standard economic framework to better fit empirical findings using insights from psychology. We will start the course with a discussion of the rational choice model. We will also discuss a number of experiments and empirical studies that demonstrate systematic violations of the rational choice paradigm.

The course requires prior knowledge of microeconomics and game theory.

**TEXTBOOK**

The course will mainly follow the lecture slides that will be distributed regularly.

Additionally, the following books will be useful:

Primary Reading:

Cartwright, Edward. Behavioral economics. Routledge, 2018.

Secondary Reading:

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

Advances in Behavioral Economics, (2004) by Colin Camerer, George Loewenstein, and Matthew Rabin 2004.

Rational Choice in an Uncertain World: The Psychology of Judgment and Decision Making (2001) by Reid Hastie and Robyn M. Dawes

Psychology of Judgment and Decision Making (1993) by Scott Plous

Behavioral Game Theory (2003) by Colin Camerer,

Choices, Values, and Frames (2000) by Daniel Kahneman and Amos Tversky

Handbook of Experimental Economics (1997), by John Kagel and Al Roth.

Behavioral Law and Economics (2000), by Cass Sunstein

Advances in Behavioral Finance (2005), by Richard Thaler

## GRADING

|                      |      |                     |
|----------------------|------|---------------------|
| Quizzes <sup>1</sup> | 15 % |                     |
| Class Participation  | 5 %  |                     |
| Midterm              | 35 % | (November 13, 2023) |
| Final                | 45 % | (TBA)               |

## RULES OF CONDUCT

A student who is not present during the start of a quiz will be given a grade of 0. If you have a good reason for not attending a particular quiz, please produce relevant documentation for your absence.

Make-up exams are granted only in case of a valid and documented reason (in which case the instructor reserves the right to choose between a make-up exam and a transfer of the first midterm's credits to the final exam). Absence in exams without any valid documented reason will result in a 0 from that exam. In case of an illness, the student is required to produce a formal *doctor's note from a hospital within five business days of the report's termination*. (A doctor's note taken from a doctor's private practice does not count as formal.) In case of private hospitals, the doctor's note has to be *verified by the university health service within five business days*.

The definition for scholastic dishonesty is given in the rules and regulations of the Sabancı University. In the case of scholastic dishonesty, no credits will be given for that particular work. Cheating during written work will result in an F for the course. All incidents of scholastic dishonesty will be reported to FASS for disciplinary action.

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<sup>1</sup> The grade is determined as an average of **all** quiz grades.

## **COURSE OUTLINE**

Our class time will include lecture, group work, discussion, and some in-class activities. Any changes to this outline will be announced in class. Additional readings may be assigned as the semester proceeds.

### **1. INTRODUCTION**

- What is behavioral economics
- A review of the rational choice model

Behavioral Economics: Past, Present, Future by Colin F. Camerer and George Loewenstein  
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.

### **2. REFERENCE-DEPENDENT PREFERENCES**

- Endowment Effect
- Status quo Bias
- Loss Aversion

Loss Aversion in Riskless Choice: A Reference-dependent Model by Tversky and Kahneman  
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.

### **3. CONTEXT EFFECTS**

- Attraction Effect
- Compromise Effect

Benartzi, S., & Thaler, R. (2007). Heuristics and biases in retirement savings behavior. *Journal of Economic perspectives*, 21(3), 81-104.

Cartwright chapter 2.

#### **4. PREFERENCES OVER RISKY AND UNCERTAIN OUTCOMES**

- Risk Aversion: St. Petersburg Paradox
- Certainty Effect: Allais Paradox
- Risk seeking towards losses
- Prospect Theory
- Risk versus Uncertainty
- Disappointment Aversion

Choices, Values and Frames by Daniel Kahneman and Amos Tversky

Prospect Theory in the Wild: Evidence from the Field by Colin F. Camerer

Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *Science*, 185(4157), 1124-1131.

#### **5. AMBIGUITY**

Are risk premium anomalies caused by ambiguity? by Robert A Olsen and George H Troughton.

#### **6. INTERTEMPORAL CHOICE**

- Samuelson's exponential-discounting model.
- Self-control problems and hyperbolic discounting
- Harmful substances and government policy.
- Anxiety, optimism and other anticipatory emotions.
- Market implications.

Time Discounting and Time Preference: A Critical Review by Shane Frederick, George Loewenstein, and Ted O'Donoghue

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.

## **7. FAIRNESS AND SOCIAL PREFERENCES**

- Selfishness
- Altruism
- Reciprocity and intentionality

Fairness as a Constraint on Profit Seeking: Entitlements in the Market by Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler

A Theory of Fairness, Competition, and Cooperation by Ernst Fehr and Klaus M. Schmidt

Incorporating Fairness into Game Theory and Economics by Matthew Rabin

Explaining Bargaining Impasse: The Role of Self-Serving Biases by Linda Babcock and George Loewenstein

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

## **8. BEHAVIORAL GAME THEORY**

Theory and Experiment in the Analysis of Strategic Interaction by Vincent P. Crawford

Behavioral Game Theory: Predicting Human Behavior in Strategic Situations by Colin F. Camerer