

# Behavioral Economics

EC 410-510

Winter 2012

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## 1 Introduction

This course will explore how economics has been incorporating insights and findings from psychology into the discipline. This comes after nearly a century of independent evolution with psychologist focusing on experiments to detail how people think and behave and economist focusing on simplified models of individual agents to develop theories about markets and strategic behavior.

We will be relaxing the assumptions of self-interest, willpower and calculating ability. This follows a tradition of relaxing assumptions to advance economic theory.

## 2 Prerequisites

Undergraduate students are expected to have completed EC 311 - Microeconomic Theory and graduate students are expected to have completed EC 581 – Advanced Microeconomics. We will make considerable use of choice theory, time discounting and game theory.

## 3 Resources

My office is in CH 241-T. The best ways of contacting me, in decreasing order of effectiveness:

- Email: woodsj@pdx.edu. This gets checked twice times a day.
- gtalk: woodsj@pdx.edu
- Phone/Text: (503) 465-4883.
- skype: woodsjam
- I will not respond to D2L email.

Office hours will be held through the last week of class Monday 12:00-1:00. There is no need to make an appointment for these hours – just come. I am happy to meet with you.

If you can't attend the regular office hours, please check my calendar at <http://tungle.me/woodsjam> and follow the directions for setting up an appointment. Let me know if you want a phone or in-person appointment.

If class is canceled I will post an announcement on twitter account @PSUWoods with hashtag #ECBehav.

### 3.1 Use of D2L

D2L will be essential to the class for:

- Access to your grades
- Links to the library's electronic reserve. All required reading assignments are provided electronically. There is no required packet or book.
- Links to additional resources and the locations of students' public work.
- A updated calendar of key dates and expected readings for each class meeting.

## 4 Basis For Grade

This class will be taught as a collaborative seminar with limited traditional lecture. There are no exams but there will be a considerable amount of writing and analysis, presentations by teams of student researchers and several referee reports.

Nearly all work product will be made public to the class or academic community though your grade will not.

### 4.1 Team Assignments

Teams will be assigned by the instructor during the first week of class. They will be composed of at least one graduate student and one undergraduate student. Assignments will be made based a survey of completed math, economics and statistics courses. The intent is to ensure that each team has the skills it needs to succeed.

The teams are intended to encourage cooperative learning where graduate students can assist undergraduate students with concepts they are unsure of and those with exceptional skills can share insight with others.

A team may remove a member by an anonymous 3/4th majority vote of a current members. Removed members will act as a team of one until other teams remove members or students join the class. Removed members may join other teams by an anonymous 3/4th majority vote of the receiving team. All votes will be conducted by the instructor should two students on a team request a vote. *The instructor reserves the right to reassign students to teams should there be large differences in team size.*

Teams will be assigned to explain one or more diagrams, tables, subsequent literature or equations in the papers we discuss. Teams are expected to create intuitive explanations, make critical statements, and field reasonable questions. Expect these assignments at least once a week. Performance will be evaluated by the instructor on a 0 to 5 scale and constitute 30% of your grade.

**0 Points** Base

**1 Points** Rudimentary synopsis that simply repeats what was in the paper.

**2 Points** Synopsis that also includes an example and explanation that goes beyond what was in the paper or that explains in greater detail what was in the paper.

**3 Points** 2 AND able to respond to simple questions.

**4 Points** 3 AND able to respond to questions about implications and the effects of changes in assumption or form.

**5 Points** Exemplary example of 4.

## 4.2 Individual/Group Term Paper

The largest assignment will be a term paper and will account for 35% of your grade. The term paper may be either a literature review, in which case it *must* be completed by an individual or an empirical/theoretical paper which may have up to three co-authors. Co-authors need not be on the same team. Graduate students must complete an empirical/theoretical paper. Term paper preparation and evaluation will be in stages.

1. Authors and co-authors must publish an abstract, including a few key references, in the “Draft Abstracts” discussion topic and schedule a 30 minute review meeting with the instructor by February 3rd. Scope and depth changes will be agreed to in the meeting.
2. A revised abstract must be submitted by February 10th and will be published in the “Final Abstracts” discussion topic. Abstracts will be discussed in class and online. A minimum of two reviewers will be assigned to each paper. Ideally no reviewer will be assigned more than one paper. See 4.3 for details.
3. Authors and co-authors will construct an annotated bibliography using either Zotero (<http://www.zotero.org>) or Mendeley (<http://www.mendeley.com>), two useful collaborative bibliography systems. Access will be given to the reviewers as soon as possible. A reasonably complete annotated bibliography will be available for the class to review by February 17th. A link to your Zotero or Mendeley abstract should be provided in “Final Abstracts” discussion topic.
4. Authors and co-authors that are pursuing an empirical paper must schedule a 20-minute presentation to the class on data collection, design and analysis approach prior to completion of the draft paper. Additional problem solving presentations are encouraged.
5. A draft of the paper must be published in the “Draft Papers” discussion topic by February 24th. The referees will deliver a referee report on your draft by March 2nd as a comment to your original post. The instructor will make additional comments after the reports are received.
6. The final paper must be published to the “Final Papers” discussion topic by March 16th. *Term papers must be less than 20 pages.*

## 4.3 Individual Assignments

There are four assignments that must be completed by individuals:

- Each student is required to provide one paragraph responses to each paper assigned in the class and a penetrating non-factual discussion prompt on the text. The paragraph must be published in the discussion topic with the same title as the paper in the “Reading Responses” section. This will be evaluated by the instructor on a 0 to 2 scale. These responses will constitute 10% of your grade.

The following rubric will be used for response paragraphs.

**0 Points** Base

**1 Points** Response deals with details of the paper beyond what can be gleaned from the abstract, introduction and conclusion.

**2 Points** all required for a 1 and a discussion prompt used in class.

- A referee report on one of the assigned readings. This is a paper of your choice. Details on what constitutes a referee report and examples of referee reports will be presented in class. The report must be less than five pages, will be evaluated on a 0 to 5 scale, will constitute 10% of your grade and must be completed and posted in the “Referee Reports” topic by February 24th.

All referee reports will use the following rubric.

**0 Points** Base

**1 Points** Rudimentary synopsis and minor criticism of the paper.

**2 Points** Report gives an accurate synopsis of paper and the contribution it makes to the literature.

**3 Points** 2 AND identifies and explains weaknesses in the analysis or gaps in the literature.

**4 Points** 3 AND provides suggested articles to be included and several options that would improve analysis.

**5 Points** Exemplary example of 4.

- A referee report on a student's or group's draft paper. You will be assigned a paper to review. The report must be less than five pages, will be evaluated on a 0 to 5 scale and will constitute 10% of your grade. This is due by March 2nd and must be posted as a comment on the draft paper in the "Draft Papers" topic.
- A referee report on a student's or group's final paper. This will be a second review of the paper you previously reviewed. The report must be less than five pages, will be evaluated on a 0 to 5 scale and will constitute 5% of your grade. This referee report will be delivered by the day of the final exam, March 23rd and published as a comment to the paper in the "Final Papers" topic.

#### 4.4 Other Rules

- The use of laptops in class is encouraged nearly to the point of being demanded. The instructor will often assign scribes to publish notes of a discussion.
- Portland State University supports equal opportunity for all, regardless of age, color, disability, marital status, national origin, race, religion or creed, sexual or gender identity, sexual orientation, veteran status, or any other basis in law.
- Students with accommodations approved through the Disability Resource Center are responsible for contacting the faculty member prior to, or during, the first week of term to discuss accommodations. Students who believe they are eligible for accommodations but who have not yet obtained approval should contact the DRC immediately.
- Academic honesty is expected and required of students enrolled in this course. Suspected academic dishonesty in this course will be handled according to the procedures set out in the Student Code of Conduct.

#### 4.5 Expected Outline

*Don't anticipate reading all these items.* We will trim this list depending on the pace and skills in the class.

1. Introduction to the course, protocols and tools
  - (a) Review of syllabus and expectations.
  - (b) Use of blackboard for grades and document links.
  - (c) Use of google docs for collaboration and how to share.
  - (d) Zotero, Mendelay and scholar for collaborative bibliography.
  - (e) Human Subjects Review basics at Portland State University
  - (f) Assignment to teams.
  - (g) Background on Mechanical Turk for Empirical Experiments
    - i. Resources: Amazon Mechanical Turk Click the Get Started tab under Get Results to get to the resource center. Many valuable resources are here including excellent videos.  
<https://www.mturk.com/mturk/welcome>

- ii. Experimental Turk Outstanding web site by Gabriele Paolacci and Massimo Warglien focused on using Mechanical Turk for social science experiments. Especially valuable is the resources and links tab. <http://experimentalturk.wordpress.com/about/>
- iii. Guide to Experiments on Amazons Mechanical Turk A web page by Winter with some nitty-gritty details. Unfortunately it is written for MAC. Its a must read for a researcher. <http://ecbiz76.inmotionhosting.com/~smalls7/blog/?p=95>
- iv. COS 597D: Crowdsourcing your experiment A Princeton university class. Excellent references in the Syllabus and some nice resources in the Useful Links section. <http://www.cs.princeton.edu/courses/>
- v. Birnbaum, M. H. (2004). "Human Research and Data Collection via the Internet". Annual Review of Psychology, 55, 803-832. <http://www.annualreviews.org.proxy.lib.pdx.edu/eprint/UUFqXFibix>

## 2. Overview of Behavioral Economics

- (a) Camerer, Colin F. & George Loewenstein and "Behavioral Economics: Past, Present, Future" in Camerer, Loewenstein and Rabin (2004) Advances in Behavioral Economics <https://docs.google.com/viewer?a=>
- (b) Daniel Kahneman: The riddle of experience vs. memory [Video] [http://www.ted.com/talks/daniel\\_kahneman\\_t](http://www.ted.com/talks/daniel_kahneman_t)
- (c) Dan Ariely asks, Are we in control of our own decisions? [http://www.ted.com/talks/dan\\_ariely\\_asks\\_are\\_we\\_](http://www.ted.com/talks/dan_ariely_asks_are_we_)
- (d) Rabin, M. "Economics and Psychology." JEL 36, no. 1 (March 1998), p 11-46. <http://www.jstor.org.proxy.lib>
- (e) Kahneman, D. "Maps of Bounded Rationality: Psychology for Behavioral Economics." American Economic Review (December 2003), p. 1449-1475. <http://www.jstor.org.proxy.lib.pdx.edu/stable/3132137>
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- (g) Rabin, Matthew (2002) "A Perspective on Psychology and Economics," European Economic Review, Vol.46, p. 657-685 <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.17.8065&rep=rep1&>

## 3. Framing, Reference and Endowment Effects

- (a) Daniel Kahneman, Jack L. Knetsch and Richard H. Thaler "Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias" The Journal of Economic Perspectives, Vol. 5, No. 1. (Winter, 1991), p. 193-206. <http://www.jstor.org.proxy.lib.pdx.edu/stable/1942711>
- (b) Kahneman, Daniel, Jack L. Knetsch, and Richard Thaler. (1990) "Experimental Tests of the Endowment Effect and the Coase Theorem," JPE, 98(6), p. 1325-1348 <http://www.jstor.org.proxy.lib.pdx.edu/>
- (c) List, John A. (2003) "Does Market Experience Eliminate Market Anomalies?" QJE, 118(1), p. 41-71. <http://www.jstor.org.proxy.lib.pdx.edu/stable/25053898>
- (d) List, John A. (2004) "Neoclassical Theory Versus Prospect Theory: Evidence from the Marketplace," Econometrica, 72(2): 615-625. <http://www.jstor.org.proxy.lib.pdx.edu/stable/3598914>
- (e) Botti, S. & Iyengar, S.S. (2006) "The Dark Side of Choice: When Choice Impairs Social Welfare," Journal of Public Policy and Marketing, 25 (1), p. 24-38 [http://www.columbia.edu/~ss957/articles/dark\\_side/](http://www.columbia.edu/~ss957/articles/dark_side/)

## 4. Reference Effects in the Labor Market

- (a) Camerer, Colin, Babcock, Linda, Loewenstein, George, and Thaler, Richard.(2000) "Labor supply of New York City Cabdrivers: One day at a time," \*\*\*COMPLETE CITE\*\*\* <http://www.jstor.org.proxy.lib>
- (b) Farber, Henry S. (2005) "Is Tomorrow Another Day? The Labor Supply of New York City Cab Drivers," JPE, 113(1), p. 46-82. [http://www.uibk.ac.at/economics/bbl/lit\\_se/lit\\_se\\_ss06\\_papiere/farber](http://www.uibk.ac.at/economics/bbl/lit_se/lit_se_ss06_papiere/farber)
- (c) Fehr, Ernst and Lorenz Goette. (2007) "Do Workers Work More if Wages are High? Evidence from a Randomized Field Experiment," AER, 97(1), p. 298-317 <http://www.jstor.org.proxy.lib.pdx.edu/stable/>

## 5. Decision Making Under Uncertainty, Projection Bias, Representativeness and Overconfidence

- (a) Kahneman, Daniel, Jack L. Knetsch. and Richard H. Thaler. (1991) "Anomalies: The Endowment Effect, Loss Aversion and Status Quo Bias" JEP Winter 1991, p. 193. <http://econ.ucdenver.edu/beckman/Econ>
- (b) Kahneman, D., and A. Tversky. "Prospect Theory: An Analysis of Decision Under Risk." *Econometrica* 47, no. 2 (March 1979), p. 263-91. <http://www.econ.iastate.edu/classes/econ642/Babcock/kahnema>
- (c) Tversky, A., and Kahneman, D.: 1992, "Advances in prospect theory, cumulative representation of uncertainty", *Journal of Risk and Uncertainty* 5, p. 297-323. <http://3xfund.com/images/article009.pdf>
- (d) Kszegi, Botond, and Matthew Rabin. (2006) "A Model of Reference-Dependent Preferences," *QJE*, 121(4), p. 1133-1165. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.61.4597&rep=rep1>
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- (f) Odean, Terrence. (1999) "Do Investors Trade Too Much?" *AER*, 89(5), p. 1279-1298. <http://www.jstor.org.proxy.lib.pdx.edu/stable/117000>

## 6. Gender and Beliefs

- (a) Gneezy, Uri, Muriel Niederle, and Aldo Rustichini. (2003) "Performance in Competitive Environments: Gender Differences," *QJE*, 118, p. 1049-1074. <http://www.iq.harvard.edu/files/iqss/old/PPBW/niederle>
- (b) Niederle, Muriel, and Lise Vesterlund. (2007) "Do Women Shy away from Competition? Do Men Compete too Much?" *QJE*, 122(3), p. 1067-1101. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.61.4597&rep=rep1>
- (c) Gneezy, Uri, Leonard, Kenneth, and List, John. (2009) "Gender Differences in Competition: Evidence from a Matrilineal and a Patriarchal Society," *Econometrica* 77(5), p. 1637-1664. <https://management.ucsd.edu/faculty/directory/gneezy/docs/gender-differences-competition.pdf>
- (d) Hoff, Karla, and Priyanka Pandey. (2004) "Belief Systems and Durable Inequalities: An Experimental Investigation of Indian Caste," World Bank Policy Research Working Paper 3351. <http://siteresources.worldbank.org/DEC/Resources/BeliefSystemsandDurableInequalities.pdf>
- (e) Barber, Brad, and Terrence Odean. (2001) "Boys Will Be Boys: Gender, Over-confidence, and Common Stock Investment," *QJE*, 116(1), p. 261-292. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.61.4597&rep=rep1>
- (f) Andreoni, James, and Lise Vesterlund. (2001) "Which is the Fair Sex? Gender Differences in Altruism," *QJE*, 116(1), p. 293-312. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.165.4821&rep=rep1>

## 7. Time Value, Discounting, Myopia and Self Control

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- (f) DellaVigna, Stefano and Malmendier, Ulrike. (2006) "Paying Not To Go To The Gym," *AER*, 96(3), p. 694-719. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.61.4827&rep=rep1&type=pdf>
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## 8. Time Value and Savings

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## 9. Emotion, Mood, Hot States, Cold States and Neuroeconomics

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## 10. Social Preferences, Fairness and Reciprocity

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