

Behavioral Economics, Winter Term 2023/2024

Urs Fischbacher, urs.fischbacher@uni-konstanz.de

Lecture: Monday, 15:15 – 16:45, F427

Tutorial: Monday, 17:00 – 18:30, fortnightly, starting 30.10.23, F427, Moath Hussien

Neoclassical economic models rest on the assumptions of rationality and selfishness. Behavioral economics investigates departures from these assumptions and develops alternative models. In this lecture, we will discuss in particular inconsistencies in intertemporal decisions, the role of reference points, and non-selfish behavior. We will analyze models that aim in a better description of actual human behavior. In the tutorial, we will analyze the models in more detail and develop applications. The exercises will be uploaded on ILIAS as per schedule.

Content

23.10.2023		0. Introduction
30.10.2023	Intertemporal choice	1. Models of inter temporal choice
06.11.2023		2. Applications
13.11.2023	Risk	3. Prospect theory, stochastic extensions of EU; Ambiguity aversion
20.11.2023	Reference points	4. Köszegi und Rabin (2006) – Theory
27.11.2023		5. Applications
04.12.2023	Non-selfish preferences	6. Inequality aversion
11.12.2023		7. Reciprocity
18.12.2023		8. Honesty
08.01.2023		9. Image concerns
15.01.2023	Behavioral game theory	10. Quantal Response Equilibrium; Level-k and cognitive-hierarchy models
22.01.2023	Bounded Rationality	11. Heuristics; Learning
29.01.2023	Behavioral Finance	12. An Introduction
05.02.2023	Q & A	

Main literature

A comprehensive overview is Sanjit Dhami, 2016, “The Foundations of Behavioral Economic Analysis”. A new version of this book has been released in 7 volumes. You find an entertaining introduction in behavioral economics in George A. Akerlof and Robert J. Shiller, 2009, “Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism”, Princeton University Press, Princeton.

We will focus on theoretical papers. The main papers are, in order of appearance:

O’Donoghue, Ted and Matthew Rabin, 1999, “Doing it Now or Later,” American Economic Review, 89(1), 103-24.

Rabin, Matthew. “Risk Aversion and Expected-Utility Theory: A Calibration Theorem.” Econometrica, 2000, 68(5), 1281-1292.

- Loomes, Graham and Sugden, Robert. "Disappointment and Dynamic Consistency in Choice under Uncertainty." *Review of Economic Studies*, 53(2), 271-282.
- Gul, Faruk. "A Theory of Disappointment Aversion." *Econometrica*, 1991, 59(3), 667-686.
- Kőszegi, Botond and Rabin, Matthew. "A Model of Reference-Dependent Preferences." *Quarterly Journal of Economics*, 2006, 121(4), pp. 1133.
- Kahneman, D. and Tversky, A. "Prospect Theory - Analysis of Decision under Risk." *Econometrica*, 1979, 47(2), pp. 263-91.
- Fehr, Ernst and Schmidt, Klaus M. "A Theory of Fairness, Competition, and Cooperation." *Quarterly Journal of Economics*, 1999, 114(3), pp. 817-68.
- Bolton, Gary E. and Ockenfels, Axel. "ERC: A Theory of Equity, Reciprocity, and Competition." *American Economic Review*, 2000, 90(1), pp. 166-93.
- Charness, Gary and Rabin, Matthew. "Understanding Social Preferences with Simple Tests." *Quarterly Journal of Economics*, 2002, 117(3), pp. 817-69.
- Levine, David K. "Modeling Altruism and Spitefulness in Experiments." *Review of Economic Dynamics*, 1998, 1(3), pp. 593-622.
- Rabin, M. "Incorporating Fairness into Game-Theory and Economics." *American Economic Review*, 1993, 83(5), pp. 1281-302.
- Dufwenberg, M. and Kirchsteiger, G. "A Theory of Sequential Reciprocity." *Games and Economic Behavior*, 2004, 47(2), pp. 268-98.
- Falk, Armin and Fischbacher, Urs. "A Theory of Reciprocity." *Games and Economic Behavior*, 2006, 54(2), pp. 293-315.
- Cox, James C., Friedman, Daniel, and Vjollca Sadiraj. "Revealed Altruism." *Econometrica*, 2008, 76(1), 31-69.
- Charness, Gary and Martin Dufwenberg. "Promises and Partnership." *Econometrica*, 2006, 74(6), 579-1601.
- Bénabou, Roland, and Tirole, Jean. "Incentives and Prosocial Behavior." *American Economic Review*, 2006, 96(5), 1652-1678.
- Bénabou, Roland, and Tirole, Jean. "Identity, Morals, and Taboos: Beliefs as Assets." *Quarterly Journal of Economics*, 2011, 126(2), 805-855.
- Stahl, Dale O., and Wilson, Paul W.. "On Players' Models of Other Players: Theory and Experimental Evidence." *Games and Economic Behavior*, 1995, 10(1), 218-254.
- Nagel, Rosemarie. "Unraveling in Guessing Games: An Experimental Study." *American Economic Review*, 1995, 85(5), 1313-1326.
- Costa-Gomes, Miguel, Crawford, Vincent P., and Broseta, Bruno. "Cognition and Behavior in Normal-Form Games: An Experimental Study." *Econometrica*, 2001, 69(5), 1193-1235.
- Ho, Teck-Hua, Camerer, Colin, and Weigelt, Keith. "Iterated Dominance and Iterated Best Response in Experimental "p-Beauty Contests"." *American Economic Review*, 1998, 88(4), 947-969.
- Camerer, Colin, Ho, Teck-Hua, and Chong, Juin-Kuan. "A Cognitive Hierarchy Model of Games." *Quarterly Journal of Economics*, 2004, 119(3), 861-898.
- McKelvey, Richard D., and Palfrey, Thomas R.. "Quantal Response Equilibria for Normal Form Games." *Games and Economic Behavior*, 1995, 10(1), 6-38.
- Goeree, Jacob K., and Holt, Charles A.. "A Model of Noisy Introspection." *Games and Economic Behavior*, 2004, 46(2), 365-382.