

Behavioral Economics, Winter Term 2022/2023

Dr. Katrin Schmelz, katrin.schmelz@uni-konstanz.de

Lecture: Monday, 13:30 – 15:00, D433

Tutorial: Monday, 17:00 - 18:30, F427, 7 sessions, Moath Hussien

Behavioral economics studies how people act in economic settings, based on the interplay of theoretical models and experimental methods. In this lecture, you will find evidence that people are not nearly as “clever” as economists typically assume and are also a lot nicer. We will discuss how both self-interest and non-selfish behavior affect decisions, including other-regarding preferences, non-monetary incentives, intertemporal choices and the role of reference points. We will also discuss policy applications including the design of covid and climate policies, and how preferences are affected by institutions. The conceptual framework will be provided by models describing 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

Introduction	1. Applying behavioral economics to pressing challenges like covid and climate	24.10.2022	
	2. What is behavioral economics?	31.10.2022	
	<i>No lecture</i>	<i>07.11.2022</i>	
Non-selfish preferences	3. Reciprocity and altruism	14.11.2022	
	4. Inequity aversion	21.11.2022	Tutorial: Solutions Exercise 1
Incentives & motivation	5. The moral economy: Why good incentives are no substitute for good citizens (guest lecture by Samuel Bowles)	28.11.2022 online	Tutorial: Solutions Exercise 2
	6. Incentives may crowd out motivation	05.12.2022	Tutorial: Solutions Exercise 3
Honesty	7. Honesty and promises	12.12.2022	
Intertemporal choice	8. Present bias & Doing it now or later & consumption optimization	19.12.2022	
Risk	9. Risk perception and risk preferences I	09.01.2023	Tutorial: Solutions Exercise 4
	10. Risk perception and risk preferences II	16.01.2023	
Social influences on behavior	11. Reference-dependent preferences	23.01.2023	Tutorial: Solutions Exercise 5
Endogenous preferences	12. Do institutions shape people? Evidence from Germany	30.01.2023	Tutorial: Solutions Exercise 6
Outlook	13. Validity concerns and future directions	01.02.2023	<i>[replacement date for 07.11.]</i>
	Questions and answers	06.02.2023	Tutorial: Q&A

Literature

Overviews and introductions:

- 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.
- Becker, Gary S. 1962. "Irrational Behavior and Economic Theory." *Journal of Political Economy* 70(1), 1-13.
- Becker, Gary S., and George J. Stigler. 1977. "De Gustibus Non Est Disputandum." *American Economic Review* 67(2), 76-90.
- Bowles, S., & Gintis, H. (2011). "A cooperative species." Princeton University Press. Chapter 3 surveys experimental evidence on social preferences.
- Bowles, Samuel (2016). "The Moral Economy - Why Good Incentives are no Substitutes for Good Citizens." Yale University Press.
- Camerer, Colin (2003). "Behavioral Game Theory: Experimental Studies of Strategic Interaction." Princeton, N.J.: Princeton University Press.
- Falk, Armin, and James Heckman (2009). "Lab Experiments Are a Major Source of Knowledge in the Social Sciences." *Science* 326(5952), 535–38.
- Kahneman, Daniel, and Amos Tversky (2000). "Choices, Values, and Frames." Princeton, N.J.: Princeton University Press.
- 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.
- Sen, Amartya K. 1977. "Rational Fools: A Critique of the Behavioral Foundations of Economic Theory." *Philosophy and Public Affairs* 6(4), 317-344.

The following list of papers will give you a more precise idea about the content of the lecture. You will receive a selection of reading recommendations before each lecture.

- Aaron, Henry (1994). "Distinguished Lecture on Economics in Government: Public Policy, Values, and Consciousness", *Journal of Economic Perspectives* 8, 3-21.
- Andreoni, James, and Miller, John (2002). "Giving according to GARP: An Experimental Test of the Consistency of Preferences for Altruism", *Econometrica* 70(2), 737–53.
- Akerlof, George. A. and Kranton, Rachel E. (2000). „Economics and identity", *Quarterly Journal of Economics*, 115(3), 715-753.
- Bénabou, Roland, and Tirole, Jean (2003). "Intrinsic and Extrinsic Motivation." *Review of Economic Studies* 70:489–520.
- Bénabou, Roland, and Tirole, Jean (2006). "Incentives and Prosocial Behavior." *American Economic Review*, 96(5), 1652-1678.
- Bénabou, Roland, and Tirole, Jean (2011). "Identity, Morals, and Taboos: Beliefs as Assets." *Quarterly Journal of Economics*, 126(2), 805-855.
- Bolton, Gary E. and Ockenfels, Axel (2000). "ERC: A Theory of Equity, Reciprocity, and Competition." *American Economic Review*, 90(1), 166-93.
- Bowles, Samuel (1998). "Endogenous preferences: The cultural consequences of markets and other economic institutions." *Journal of Economic Literature*, 36(1), 75-111.
- Bowles, Samuel, & Polania-Reyes, Sandra (2012). "Economic Incentives and Social Preferences: Substitutes or Complements?" *Journal of Economic Literature*, 50(2), 368-425.
- Cardenas, Juan Camilo, John K. Stranlund, and Cleve E. Willis (2000). "Local Environmental Control and Institutional Crowding-Out." *World Development* 28(10), 1719–33.

- Charness, Gary and Dufwenberg, Martin (2006). "Promises and Partnership." *Econometrica*, 74(6), 579-1601.
- Charness, Gary and Rabin, Matthew (2002). "Understanding Social Preferences with Simple Tests." *Quarterly Journal of Economics*, 117(3), 817-69.
- Cox, James C., Friedman, Daniel, and Vjollca Sadiraj (2008). "Revealed Altruism." *Econometrica*, 76(1), 31-69.
- Dufwenberg, Martin and Kirchsteiger, Georg (2004). "A Theory of Sequential Reciprocity." *Games and Economic Behavior*, 47(2), 268-98.
- Falk, Armin and Fischbacher, Urs (2006). "A Theory of Reciprocity." *Games and Economic Behavior*, 54(2), 293-315.
- Falk, Armin, and Michael Kosfeld (2006). "The Hidden Costs of Control." *American Economic Review* 96(5), 1611–30.
- Fehr, Ernst and Schmidt, Klaus M (1999). "A Theory of Fairness, Competition, and Cooperation." *Quarterly Journal of Economics*, 114(3), 817-68.
- Fehr, Ernst, and Simon Gaechter (2000). "Cooperation and Punishment in Public Goods Experiments." *American Economic Review* 90 (4), 980 –94.
- Fehr, Ernst, and Bettina Rockenbach (2003). "Detrimental Effects of Sanctions on Human Altruism." *Nature* 422(13), 137– 40.
- Galbiati, R., & Vertova, P. (2014). "How laws affect behavior: Obligations, incentives and cooperative behavior." *International Review of Law and Economics*, 38, 48-57.
- Gneezy, U., & Rustichini, A. (2000). "Pay enough or don't pay at all." *Quarterly Journal of Economics*, 115(3), 791-810.
- Henrich, J., Boyd, R., Bowles, S., Camerer, C., Fehr, E., Gintis, H., & McElreath, R. (2001). "In search of Homo economicus: Behavioral experiments in 15 small-scale societies." *American Economic Review*, 91(2), 73-78.
- Herrmann, Benedikt, Thöni, Christian, & Gächter, Simon (2008). „Antisocial Punishment Across Societies." *Science*, 319(5868), 1362-1367.
- Kahneman, Daniel (1994). "New Challenges to the Rationality Assumption." *Journal of Institutional and Theoretical Economics* 150(1), 18 –36.
- Kahneman, Daniel and Tversky, Amos (1979). "Prospect Theory - Analysis of Decision under Risk." *Econometrica*, 47(2), 263-91.
- Köszegi, Botond and Rabin, Matthew (2006). "A Model of Reference-Dependent Preferences." *Quarterly Journal of Economics*, 121(4), 1133.
- O'Donoghue, Ted and Matthew Rabin (1999). "Doing it Now or Later," *American Economic Review*, 89(1), 103-24.
- Rabin, Matthew (2000). "Risk Aversion and Expected-Utility Theory: A Calibration Theorem." *Econometrica*, 68(5), 1281-1292.
- Levine, David K. (1998). "Modeling Altruism and Spitefulness in Experiments." *Review of Economic Dynamics*, 1(3), 593-622.
- Rabin, M. (1993). "Incorporating Fairness into Game-Theory and Economics." *American Economic Review*, 83(5), 1281-302.
- Schmelz, Katrin (2021). "Enforcement may crowd out voluntary support for COVID-19 policies, especially where trust in government is weak and in a liberal society." *Proceedings of the National Academy of Sciences of the United States of America (PNAS)*, 118(1).
- Ziegelmeyer, A., Schmelz, K., & Ploner, M. (2012). "Hidden costs of control: four repetitions and an extension." *Experimental Economics*, 15(2), 323-340.