Behavioral Economics, Winter Term 2012/2013

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

Wednesday 8:15-9:45, F 425

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 inconsistencies in intertemporal decisions, the role of reference points, money illusion and non-selfish behavior. We will analyze models that aim in a better description of actual human behavior.

Content

	Introduction
Intertemporal choice	(β, δ) preferences
	Consumption optimization
	Empirical tests
Reference points	Introduction
	Köszegi und Rabin (2006)
	Empirical tests
Non-selfish preferences	Introduction
	Social Preference Theories: Inequity Aversion
	Social Preference Theories: Reciprocity
	Testing Theories
	Field evidence
	Honesty
Incentives	Monetary incentives and intrinsic motivation
Final lecture	Questions and Answers

Main literature

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.

David Laibson, Andrea Repetto and Jeremy Tobacman (2003) “A Debt Puzzle” in eds. Philippe Aghion, Roman Frydman, Joseph Stiglitz, Michael Woodford, Knowledge, Information, and Expectations in Modern Economics: In Honor of Edmund S. Phelps, Princeton: Princeton University Press, 228-266. http://www.economics.harvard.edu/faculty/laibson/files/sept17.pdf

Köszegi, 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.

Rabin, Matthew. "Risk Aversion and Expected-Utility Theory: A Calibration Theorem." *Econometrica*, 2000, *68*(5), pp. 1281-92.

Fehr, Ernst and Tyran, Jean-Robert. "Does Money Illusion Matter?" *The American Economic Review*, 2001, *91*(5), pp. 1239-62.
Bolton, Gary E. and Ockenfels, Axel. "Erc: A Theory of Equity, Reciprocity, and Competition." *American Economic Review*, 2000, *90 1*, pp. 166-93.
Fehr, Ernst and Schmidt, Klaus M. "A Theory of Fairness, Competition, and Cooperation." *Quarterly Journal of Economics*, 1999, *114 3*, pp. 817-68.
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.
Charness, Gary and Rabin, Matthew. "Understanding Social Preferences with Simple Tests." *Quarterly Journal of Economics*, 2002, *117 3*, pp. 817-69.