Behavioral Economics, Winter Term 2009/2010

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

Mo 14-16 Uhr (G309)

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

19.10.2009		Introduction
26.10.2009	Intertemporal choice	(β, δ) preferences
02.11.2009		Consumption optimization
09.11.2009		Empirical tests
16.11.2009	Reference points	Introduction
23.11.2009		Köszegi und Rabin (2006)
30.11.2009		Empirical tests
07.12.2009	Money Illusion	
14.12.2009	Dual selfs	Animal spirit model
21.12.2009	Non-selfish prefernces	Introduction
11.01.2010		Social Preference Theories: Inequity Aversion
18.01.2010		Social Preference Theories: Reciprocity
25.01.2010		Testing Theories
01.02.2010		Field evidence
08.02.2010		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.