

Behavioral Economics, Winter Term 2019/2020

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Lecture: Monday, 13:30 - 15:00,

Tutorial: Monday, 17:00 - 18:30, Deepti Bhatia

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.

Content

	0. Introduction	21.10.2019
Intertemporal choice	1. Introduction of the present bias	28.10.2019
	2. Doing it now or later & consumption optimization	04.11.2019
Risk	3. Risk perception and risk preferences	11.11.2019
	4. Prospect theory, stochastic extensions of EU; Ambiguity aversion	18.11.2019
Reference points	5. Köszegi und Rabin (2006) - Theory	25.11.2019
	6. Köszegi und Rabin (2006) - Applications	02.12.2019
Non-selfish preferences	7. Inequality aversion	09.12.2019
	8. Reciprocity	16.12.2019
	9. Guilt and deception	13.01.2020
	10. Image concerns	20.01.2020
Incentives	11. Behavioral game theory; Level-k and cognitive-hierarchy models	27.01.2020
Bounded Rationality	13. Heuristics; Learning	03.02.2020
Final lecture	Questions and Answers	10.02.2020

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. A comprehensive overview is Sanjit Dhami, 2016, "The Foundations of Behavioral Economic Analysis"

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

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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.

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.
- 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.