

## Behavioral Economics, Winter Term 2014/2015

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Lecture: Monday, 17:00 - 18:30, P 603

Tutorial: Monday, 18:45 - 19:30, F 420

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	20.10.2014
Intertemporal choice	1. Present bias - introduction	27.10.2014
	2. Present bias – Doing it now or later	03.11.2014
	3. Present bias - Consumption optimization	10.11.2014
Risk	4. Risk perception and risk preferences	17.11.2014
Reference points	5. Evidence for reference points	24.11.2014
	6. Köszegi und Rabin (2006) - Theory	01.12.2014
	7. Köszegi und Rabin (2006) - Applications	08.12.2014
Non-selfish preferences	8. Evidence of social preferences	15.12.2014
	9. Inequality aversion	22.12.2014
	10. Reciprocity	12.01.2015
	11. On the evolution of cooperation	19.01.2015
	12. Guild and deception	26.01.2015
Incentives	13. Intrinsic motivation	02.02.2015
Final lecture	Questions and Answers	09.02.2015

### 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.
- 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.