

M2 ETE: Advanced Behavioral and Experimental Economics, Syllabus 2020-2021

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Objectives:

Standard economic theory postulates that individual decisions are the product of perfectly rational and purely self-interested agents. A substantial body of literature documents that these assumptions are often inaccurate, and that individuals display systematical departures from the standard paradigm. For example, agents face limitations in their ability to process all the relevant information and they are very sensitive to the way this information is framed. They evaluate outcomes relative to a reference point and they may take actions which are not in their long-run interest. Moreover, they tend to be more willing to contribute to public goods than the standard paradigm suggests.

In this course, we discuss some of the most active lines of research aimed at incorporating these “biases” into alternative models of decision-making and strategic interactions. We present evidence (from laboratory experiments and from the field) on individual departures from the standard economic paradigm, analyze these phenomena with rigorous formal models, and discuss how these behaviors affect strategic and market interactions.

The course is intended to stimulate some critical thinking about the fundamental building blocks of economic theory and provide some avenues to enrich them. Our ultimate goal is to introduce participants to a set of questions and tools to enable them to start their own journey into (behavioral) economics research.

Requirements:

The course will be taught in English. Microeconomics and game theory are required pre-requisites. Students are expected to actively participate in class and to prepare by reading the assigned texts.

Evaluations:

Students will be evaluated on two written research project outlines (one for each instructor) and the oral presentations of the project.

Book: *The Foundations of Behavioral Economic Analysis*, Sanjit Dhami, Oxford University Press.

Outline (the reference list is preliminary and not all papers will be covered in detail):

1. Reference-dependent preferences (3 hours, Milo Bianchi)

Kahneman D, Tversky A. Prospect theory: an analysis of decision under risk. *Econometrica* 1979, vol. 47, pp. 263-291.

Koszegi, Botond and Rabin, Matthew. A Model of Reference-Dependent Preferences, *Quarterly Journal of Economics* (2006), 121(4), pp. 1133-1166

Camerer, C. F., L. Babcock, G. Loewenstein, and R. H. Thaler: “Labor Supply of New York City Cab Drivers: One Day at a Time,” *Quarterly Journal of Economics*, Vol. 112, No. 2, May, 1997, pp. 407-441.

2. Time preferences (3 hours, Milo Bianchi)

Ted O'Donoghue & Matthew Rabin, 1999. "Doing It Now or Later," *American Economic Review*, vol. 89(1), pages 103-124.

Fudenberg, Drew and Levine, David. A dual self-model of impulse control. *The American Economic Review*, Volume 96, Number 5, December 2006

Stefano DellaVigna & Ulrike Malmendier, 2006. "Paying Not to Go to the Gym," *American Economic Review*, vol. 96(3), pages 694-719

Thaler RH, Benartzi S. Save more tomorrow: using behavioral economics to increase employee saving. *Journal of Political Economy* 2004, vol. 112, pp. 164-187.

3. Limited attention and Bounded Rationality (6 hours, Milo Bianchi)

Herbert Simon - A Behavioral Model of Rational Choice - *Quarterly Journal of Economics*, Vol. 69, No. 1. (Feb., 1955), pp. 99-118.

Enriqueta Aragonés & Itzhak Gilboa & Andrew Postlewaite & David Schmeidler, 2005. "Fact-Free Learning," *American Economic Review*, vol. 95(5), pages 1355-1368, December.

Marianne Bertrand & Dean Karlan & Sendhil Mullainathan & Eldar Shafir & Jonathan Zinman, 2010. "What's Advertising Content Worth? Evidence from a Consumer Credit Marketing Field Experiment," *The Quarterly Journal of Economics*, vol. 125(1), pages 263-305, February.

R Nagel, "Unraveling in Guessing Games: An Experimental Study", *American Economic Review*, 1995, vol. 85(5), pages 1313-26

Colin F. Camerer & Teck-Hua Ho & Juin-Kuan Chong, 2004. "A Cognitive Hierarchy Model of Games," *Quarterly Journal of Economics*, vol. 119(3), pages 861-898.

Thomas Eiseensee & David Strömberg, 2007. "News Droughts, News Floods, and U.S. Disaster Relief," *Quarterly Journal of Economics*, vol. 122(2), pages 693-728

Ran Spiegler, 2006. "The Market for Quacks," *Review of Economic Studies*, vol. 73(4), pages 1113-1131.

Xavier Gabaix & David Laibson, 2006. "Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets," *Quarterly Journal of Economics*, vol. 121(2), pages 505-540.

4. Social interactions: altruism, fairness concerns, and reciprocity (3 hours, Ingela Alger)

Fehr, E., and K. Schmidt (1999) "A theory of Fairness, Competition, and Cooperation," *Quarterly Journal of Economics*, 114, 817-868.

Charness, G., and M. Rabin (2002) "Understanding Social Preferences with Simple Tests," *Quarterly Journal of Economics*, 117, 817-869.

Levine, D. (1998) "Modelling Altruism and Spite in Experiments," *Review of Economic Dynamics*, 1, 593-622.

Bruhin, A., Fehr, E., & Schunk, D. (2018). The many Faces of Human Sociality: Uncovering the Distribution and Stability of Social Preferences. *Journal of the European Economic Association*, 0(0), 1–55. <https://doi.org/10.1093/jeea/jvy018>

Englmaier, F., & Wambach, A. (2010). *Games and Economic Behavior* Optimal incentive contracts under inequity aversion ☆. 69, 312–328. <https://doi.org/10.1016/j.geb.2009.12.007>

Alger, I. and J.W. Weibull (2010) "Kinship, Incentives and Evolution," *American Economic Review*, 100, 1725-1758.

5. Social interactions: warm glow, image concerns, moral concerns, conformity, lying aversion (4.5 hours, Ingela Alger)

Andreoni, J. (1990) "Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving," *Economic Journal*, 100, 464-477.

Bernheim, B.D. (1994) "A Theory of Conformity," *Journal of Political Economy*, 102:841--877.

Young, Peyton (1996). "The Economics of Convention," *Journal of Economic Perspectives* Vol. 10 (Spring), pp. 105-122.

Fershtman, C., & Weiss, Y. (1998). Social rewards, externalities and stable preferences. *Journal of Public Economics*, 70, 53–73.

Bénabou, R. and J. Tirole (2006) "Incentives and Prosocial Behavior," *American Economic Review*,

96, 1652-1678.

Brekke, K.-A., Kverndokk, S., & Nyborg, K. (2003). An economic model of moral motivation. *Journal of Public Economics*, 87, 1967–1983. [https://doi.org/10.1016/S0047-2727\(01\)00222-5](https://doi.org/10.1016/S0047-2727(01)00222-5)

Alger, I. and J.W. Weibull (2013) "Homo Moralis---Preference Evolution under Incomplete Information and Assortative Matching," *Econometrica*, 81:2269-2302.

Akerlof, G. and R. Kranton (2000) "Economics and Identity," *Quarterly Journal of Economics*, 115, 715-753.

Alger, I., and J.W. Weibull (2017) "Strategic Behavior of Moralists and Altruists," *Games*, 8(3), 38.

Andreoni J. & Bernheim, D. (2009). Social image and the 50-50 norm: A theoretical and experimental analysis of audience effects. *Econometrica*, 77, 1607-1636.

Nagin, D. S., Rebitzer, J., Sanders, S., & Taylor, L. (2002). Monitoring , Motivation , and Management : The Determinants of Opportunistic Behavior in a Field Experiment. *American Economic Review*, 92(4), 850–873.

Gneezy, U. (2005). Deception: The Role of Consequences. *American Economic Review*, 95(1), 384–394. <https://doi.org/10.1257/0002828053828662>

Alger, I., & Renault, R. (2006). Screening ethics when honest agents care about fairness. *International Economic Review*, 47(1). <https://doi.org/10.1111/j.1468-2354.2006.00372.x>

Erat, S., & Gneezy, U. (2011). White Lies. *Management Science*, 1–11.

Gneezy, B. U., Kajackaite, A., & Sobel, J. (2018). Lying Aversion and the Size of the Lie †. *American Economic Review*, 108(2), 419–453.

6. Social interactions: extrinsic and intrinsic motivation (1.5 hours, Ingela Alger)

Roland Bénabou, Jean Tirole, Intrinsic and Extrinsic Motivation, *The Review of Economic Studies*, Volume 70, Issue 3, July 2003, Pages 489–520.

Falk, A., & Kosfeld, M. (2006). The Hidden Costs of Control. *American Economic Review*, 96(5), 1611–1630.

Bowles, Samuel. 2016. *The Moral Economy: Why Good Incentives are no Substitute for Good Citizens*. New Haven: Yale University Press.

7. Social interactions: diversity and origins (3 hours, Ingela Alger)

Bowles, S. (1998) "Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions," *Journal of Economic Literature*, 36, 75-111.

Falk, A., Becker, A., Dohmen, T., Enke, B., Huffman, D., & Sunde, U. (2018). Global evidence on economic preferences. *The Quarterly Journal of Economics*, 133(4), 1645-1692.

Becker, B. A., Enke, B., & Falk, A. (2020). Ancient Origins of the Global Variation in Economic Preferences †. *American Economic Review, Papers and Proceedings*, 110, 319–323.