M2 ETE Behavioral Economics

Course title – Intitulé du cours	M2 ETE Behavioral Economics:
Level / Semester – Niveau /semestre	2021-22 S2
School – Composante	Ecole d'Economie de Toulouse
Teacher – Enseignant responsable	Ingela Alger
Other teacher(s) – Autre(s) enseignant(s)	Renato Gomes
Lecture Hours – Volume Horaire CM	30
Course Language – Langue du cours	English

Teaching staff contacts:

Ingela Alger (T.479) ingela.alger@tse-fr.eu

Renato Gomes (T.671) renato.gomes@tse-fr.eu

Office hours by appointment

Course 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.

The first part of the course covers the theoretical and experimental literature on preferences governing behavior in social interactions, and explicit attention will be devoted to the policy implications of the findings in the literature.

The second part of the course will examine the application of behavioral economic theory and/or experimental economics methods to standard economic issues in IO, and to study the ultimate causes (i.e., evolutionary forces) behind preferences when these are transmitted across generations.

(1) *Behavioral IO* (7.5hrs), taught by Renato Gomes: Describe the most important microeconomic foundations of boundedly rational consumer choice, to then study models of pricing and firm competition with behavioral consumers.

(2) *Preference Evolution* (7.5hrs), taught by Ingela Alger: This part of the course will cover both the basics of evolutionary game theory as well as recent advances in the theory on the evolutionary foundations of preferences. The goal is to reach an understanding of how various factors in our evolutionary past may have shaped the preferences that guide human behavior in strategic interactions today. Parallells with IO will also be explored.

Prerequisites :

None beyond the M2 ETE core courses.

Practical information about the sessions:

Students are expected to have read the assigned papers before class and actively participate in class discussions.

Grading system :

Evaluation will be based on class participation (25% of the overall grade), two written research project outlines (50% of the overall grade) and the oral presentation of one of the projects (25% of the overall grade).

Bibliography/references :

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

1. **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.

2. 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). A n economic model of moral motivation. *Journal of Public Economics*, *87*, 1967–1983. 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.

3. 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.

4. 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.

5. Behavioral IO (7.5 hrs, Renato Gomes)

Armstrong, Mark, Vickers, John, 2012. Consumer protection and contingent charges. Journal of Economic Literature 50 (2), 477–493.

Bordalo, Pedro, Gennaioli, Nicola, Shleifer, Andrei, 2012. Salience theory of choice under risk. The Quarterly Journal of Economics 127 (3), 1243–1285.

Bordalo, Pedro, Gennaioli, Nicola, Shleifer, Andrei, 2013. Salience and consumer choice. Journal of Political Economy 121 (5), 803–843.

Bordalo, Pedro, Gennaioli, Nicola, Shleifer, Andrei, 2016. Competition for attention. The Review of Economic Studies 83 (2), 481–513.

Eliaz, Kfir, Spiegler, Ran, 2006. Contracting with diversely naive agents. Review of Economic Studies 73 (3), 689–714.

Eliaz, Kfir, Spiegler, Ran, 2008. Consumer optimism and price discrimination. Theoretical Economics 3 (4), 459–497.

Gabaix, Xavier, 2014. A sparsity-based model of bounded rationality. The Quarterly Journal of Economics 129 (4), 1661–1710.

Gabaix Xavier, 2019. Behavioral Inattention. In: Handbook of Behavioral Economics, edited by D Bernheim, S DellaVigna and D Laibson. Vol. 2. Elsevier ; pp. 261-343.

Gabaix, Xavier, Laibson, David, 2006. Shrouded attributes, consumer myopia, and information suppression in competitive markets. The Quarterly Journal of Economics 121 (2), 505–540.

Grubb, Michael D., 2009. Selling to overconfident consumers. The American Economic Review 99 (5), 1770–1807.

Grubb, Michael D., Osborne, Matthew, 2015. Cellular service demand: biased beliefs, learning, and bill shock. The American Economic Review 105 (1), 234–271.

Heidhues, Paul, Koszegi, Botond, 2010. Exploiting naivete about self-control in the credit market. American Economic Review 100 (5), 2279–2303.

Heidhues, Paul, Koszegi, Botond, 2017. Naivete-based discrimination. The Quarterly Journal of Economics 132 (2), 1019–1054.

Heidhues, P. and B. Kőszegi, 2018. Behavioral industrial organization, Handbook of Behavioral Economics, Vol. 1: 517-612, eds D. Bernheim, S. DellaVigna, and D. Laibson.

Johnen, Johannes, 2017b. Screening Procrastinators with Automatic-Renewal Contracts. Working Paper.

Sandroni, Alvaro, Squintani, Francesco, 2007. Overconfidence, insurance, and paternalism. American Economic Review 97 (5), 1994–2004.

Schumacher, Heiner, 2016. Insurance, self-control, and contract flexibility. European Economic Review 83 (Supplement C), 220–232.

6. **Preference Evolution (7.5 hrs, Ingela Alger)**

Empirical background:

Alesina, A., P. Giuliano, N. Nunn (2013) On the Origins of Gender Roles: Women and the Plough, *Quarterly Journal of Economics*, 128, 469–530.

Grosjean P.; and R. Khattar (2019) It's raining men! Hallelujah? The long-run consequences of Male-biased sex ratios, *Review of Economic Studies*, 86, 723 – 754

Falk, A., A. Becker, T. Dohmen, B. Enke, D. Huffman, and U. Sunde (2018) Global Evidence on Economic Preferences, *Quarterly Journal of Economics*, 133, 1645–1692.

Evolutionary game theory basics:

Chapter 2. Weibull, J.W (1995) Evolutionary Game Theory. Cambridge MA: MIT Press.

Models:

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

Alger, I. and J. Weibull (2012) A Generalization of Hamilton's Rule---Love Others How Much? *Journal of Theoretical Biology*, 299, 42-54.

Alger, I., and J.W. Weibull (2013): Homo moralis---Preference evolution under incomplete information and assortative matching, *Econometrica*, 81, 2269-2302.

Alger, I., and J.W. Weibull (2016) Evolution and Kantian morality, *Games and Economic Behavior*, 98, 56-67.

Alger, I., and J.W. Weibull (2019) Evolutionary models of preference formation, *Annual Review of Economics*, 11, 329-354.

Alger, I., J.W. Weibull, and L. Lehmann (2020) Evolution of preferences in structured populations: Genes, guns, and culture, *Journal of Economic Theory*, 185, 104951.

Bergstrom, T. (1995) On the evolution of altruistic ethical rules for siblings, *American Economic Review*, 85, 58-81.

Bergstrom, T. (1996) Economics in a family way, *Journal of Economic Literature*, 34, 1903-1934.

Bergstrom, T. (2003) The algebra of assortative encounters and the evolution of cooperation, *International Game Theory Review*, 5, 211-228.

Besley, T. (2020), State Capacity, Reciprocity, and the Social Contract, *Econometrica*, 88, 1307-1335.

Bisin, A., and T. Verdier (2001) The economics of cultural transmission and the dynamics of preferences, *Journal of Economic Theory*, 97, 298-319.

Corneo, G., and O. Jeanne (2010) Symbolic values, occupational choice, and economic development, *European Economic Review*, 54, 241-255.

Corneo, G., and O. Jeanne (2009) A theory of tolerance, *Journal of Public Economics*, 93, 691-702.

Dekel, E., J.C. Ely, and O. Yilankaya (2007) Evolution of preferences, *Review of Economic Studies*, 74, 685-704.

Fershtman, C., and K. Judd (1987). Equilibrium Incentives in Oligopoly, *American Economic Review, 77*, 927-940.

Heifetz, A., C. Shannon, and Y. Spiegel (2007) What to maximize if you must, *Journal of Economic Theory*, 133, 31-57.

Mullon, C., L. Keller, and L. Lehmann (2018) Social polymorphism is favoured by the co-evolution of dispersal with social behaviour. *Nature Ecology and Evolution,* 2**,** 132–140.

Norman, T. (2020) The evolution of monetary equilibrium, *Games and Economic Behavior*, 122, 233-239.

Ok, E.A., and F. Vega-Redondo (2001) On the evolution of individualistic preferences: an incomplete information scenario, *Journal of Economic Theory*, 97, 231-254.

Robalino, N., and A. Robson (2019) Biological and Anthropological Foundations of Economic Behavior, *Oxford Research Encyclopedia of Economics and Finance*.

Robson, A. (2001) The Biological Basis of Economic Behavior, *Journal of Economic Literature*, 39, 11-33.

Robson, A., and L. Samuelson (2011) The evolutionary optimality of decision and experienced utility, *Theoretical Economics*, 6, 311-339.

Wu, J., and H. Zhang (2020) Preference Evolution in Different Marriage Markets, WP University of Oregon.

Session planning :

Preferences governing behavior in social interactions: Ingela Alger (12 hours)

Behavioral IO: Renato Gomes (7.5 hours)

Preference Evolution: Ingela Alger (7.5 hours)

Project presentations (3 hours)

Distance learning *:*

If online, lectures will not be recorded.