Behavioral Economics is an interdisciplinary subfield of economics, which blends psychological insights with economic models. Behavioral economics research has been done in a variety of fields, including but not limited to, consumption and savings decisions, labor economics, industrial organization, development economics, public economics, environmental economics, corporate finance, and health economics. As with mainstream neoclassical economics, there are theoretical and applied papers and this course will explore both. Following the distinction in DellaVigna (2009), we will explore how individuals depart from a standard economic model in three ways: (1) nonstandard preferences, such as procrastination or reference-dependent utility, (2) nonstandard beliefs, such as overconfidence about one’s ability or assuming current preferences will hold in future states, and (3) nonstandard decision making, such as framing effects, limited attention to shipping costs and financial news or the roles of social pressure and peer effects in decision making.

Course Requirements & Policies

This is a seminar class, which means it will be a bit different than a regular course. The Oxford English Dictionary defines a seminar as “a select group of advanced students associated for special study and original research under the guidance of a professor.” I will not be giving traditional lectures. Rather, you will take turns presenting articles and leading discussion. Presentations will be joint efforts by a group of students, and when it is your turn, you are responsible for the class period that day. As a basis for the class discussion, you and your partner will develop a detailed 2-page summary of your two articles (making copies for everyone) and lead the class in a discussion of the paper and related concepts. I will of course participate as well, but my desire is that the class becomes a coherent group in which we share a passion for intellectual inquiry and discussion.

This course will rely on one popular press book and peer-reviewed journal articles. There is not a required textbook. This list has been culled by choosing selectively from syllabi on behavioral economics courses at other institutions, and my own literature searches. It is not meant to be exhaustive, and articles not on this list may be chosen for the article presentation assignments. I’m going to assign the first round of articles, but after that you will choose, in consultation with
me, which ones you want to present. My aim here is to allow you to explore topics you find most interesting.

There will be regular class presentations as described above (basically whenever your turn comes up), three oral reviews, mathematical exercises, and one book review (about 4 pages). The following weights will be applied in determining your final grade:

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Total Weight (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article presentations (about 2) &amp; formal questions</td>
<td>10</td>
</tr>
<tr>
<td>Book review</td>
<td>10</td>
</tr>
<tr>
<td>Mathematical exercises</td>
<td>20</td>
</tr>
<tr>
<td>Reviews (3)</td>
<td>60</td>
</tr>
</tbody>
</table>

Oral exams will last 30 minutes and cover all readings for that section of the course, even those that you do not present. They will be scheduled at a mutually convenient time during “oral exam weeks.” See the course schedule below. We will also take a week to discuss the book *Nudge* (ISBN-13: 978-0143115267).

The four-page critical book review is due at the beginning of class on Tuesday, October 4. The book review should mimic the format and content of book reviews in the *Journal of Economic Literature*, and be like the more critical ones. Go look at the journal for examples. Justine Hastings’ review of *Nudge* is in the December 2009 issue of the *Journal of Economic Literature* (vol. 47, issue 4, pp. 1137–40). Hers is not an especially critical review of *Nudge*. Yours should be. Point out strengths and explain why they are strengths, describe weaknesses and argue convincingly that they are weaknesses.

The mathematical exercises will be periodic assignments in which I ask you to fill in the missing steps in a derivation from one of the research papers or to answer some exam-style problems. The must be done independently, unless otherwise noted on the assignment, but you are welcome to come ask me questions. Your grade for the mathematical exercises will be the percentage of total points earned.

I have three expectations of your participation when it is not your turn to present. First, bring a copy of the readings to class, so that you can refer to any notes or comments you made in the margins as you read. Second, if your group is due to present an article next class period, each group member must write down (i.e. not just keep it in your head) two questions that occurred to you as you read. It could be about “equation (4) on page 271” or about how the author interprets a particular regression coefficient or even a more general question about the paper’s topic. The point is that you will have something to offer the group discussion should I say “so, what’s your question from the reading?” Some of the readings will be quite challenging, and I expect that you’ll have more than one question, but you have to write down only one. Going through these together is one of the fun aspects of a seminar, in my opinion, as I hope to create a shared sense of inquiry, as we work to improve our understanding of economics in general, and behavioral economics specifically. Third, speak directly with and respond to one another. I do not want every comment or question to be funneled through me. Many times they will and that’s fine, but
my role in this seminar is to guide your exploration of behavioral economics, not be the final arbiter of any discussions or disagreements.¹

**Late Work Policy**

If a student is unable to take an examination or turn in a scheduled assignment, it is the student’s responsibility to contact me prior to the scheduled completion date. No extensions will be granted for foreseen circumstances, including, but not limited to, travel for athletic teams and job interviews (assume you’ll get it, and plan accordingly). Late work will be penalized 7% points per 24 hours late. For example, if an assignment is turned in after the deadline, but within 24 hours, then the penalty is 7% points. If an assignment is turned in between 24 and 48 hours late, then the penalty is 14% points. If an assignment is turned in between 48 and 72 hours late, then the penalty is 21% points. I will not accept for grading assignments that are more than 72 hours late. Students who miss an assignment and fail to make prior, alternative arrangements will receive a grade of zero for the assignment. This really only applies to the book review & mathematical exercises as they’re the only written work to hand in. If you miss an exam or presentation, you receive a zero for that assignment.

My office hours are as indicated above. However, I operate on an “open-door” policy and encourage you to stop by anytime during the day. Students are responsible for all work from all class meetings. We will work under the default attendance policy in the Davidson Catalog of Announcements, namely, missing more than one-fourth of all course meetings automatically results in a failing grade.

The Honor Code is a valuable and venerable tradition at Davidson and applies to all work, unless otherwise indicated, such as working together on the presentations.

**Prerequisites**

There are 3 prerequisite courses: Econ 101, Statistics (Econ 105 or equivalent), and Intermediate Microeconomic Theory (Econ 202).

**Disability Accommodations**

Any student with a documented disability (e.g., physical, learning, psychiatric, vision, hearing, etc.) who needs to arrange accommodations must contact Kathy Bray in the Dean of Students office (704-894-2225) at the start of the semester. The Dean of Students office will then forward any necessary information to your professors. We can then work out the specifics for any accommodations needed for this course.

¹ Thanks to Van Hillard and Kathie Turner for useful tips on seminar roles and responsibilities.
## Class Schedule

<table>
<thead>
<tr>
<th>Dates (Tue, Thur)</th>
<th>Assignments</th>
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| **Aug 23, 25**   | Intro to Behavioral Economics  
| Aug 30          | Seminar presentations  
Kahneman and Tversky (*Econometrica*, 1979)  
Fehr and Goette (*AER*, 2007) |
| Sept 1          | Seminar presentations  
Bandiera, Barankay, & Rasul (*QJE*, 2005)  
Ariely, Gneezy, Loewenstein, & Mazar (*REStud*, 2009) |
| Sept 6          | **Review #1 Week** |
| Sept 8          | **Review #2 Week** |
| Sept 13, 15     | Seminar presentations |
| Sept 20, 22     | Seminar presentations |
| Sept 27, 29     | Seminar presentations |
| Oct 4, 6        | Discuss *Nudge* by Thaler & Sunstein in class |
| Oct 11, 13      | *No class Oct 11 – Fall Break*  
Seminar presentation |
| Oct 18, 20      | Seminar presentations |
| Oct 25, 27      | Seminar presentations |
| Nov 1, 3        | **Review #3 week during exams**  
*Review #2 Week*  
*Review #3 week during exams* |
| Nov 8, 10       | Seminar presentations |
| Nov 15, 17      | Seminar presentations |
| Nov 22, 24      | Seminar presentation  
*No class Nov 24 (Thanksgiving break)*  
*No class Nov 24 (Thanksgiving break)* |
| Nov 29, Dec 1   | Seminar presentations |
| Tue Dec 6       | Seminar presentations |
| Thur Dec 8      | Reading day |
| Thur, Dec 15    | **Review #3 week during exams** |
**Reading List**

This is not a formal, required reading list. Rather, it is meant to guide your choice of articles. I strongly encourage you to conduct your own EconLit (http://www.davidson.edu/administrative/library/logsnew/all.asp?type=DB&place=ECONLIT) or Web of Knowledge (http://www.davidson.edu/administrative/library/logsnew/all.asp?type=DB&place=WOK_SS) search if you have a particular topic of interest and would like to present an article from that research area.

**General Overview**


**Non-Standard Preferences**

*Time Inconsistent Preferences & Self-Control*


Reference Dependent Preferences


Reference Dependence and Housing Markets

*Reference Dependence and Mergers*

*Reference Dependence and Insurance Choices*


*Reference Dependence and Domestic Violence*

*Reference Dependence and Pay-Setting*

*Socially-dependent Preferences*


Gneezy, Uri, and John List. 2006. “Putting Behavioral Economics To Work: Testing For Gift
Non-Standard Beliefs

Overconfidence


Projection Bias


Law of Small Numbers

Non-Standard Decision-Making

*Limited Attention: Consumption Behavior*


*Limited Attention: eBay Auctions*


*Limited Attention: Financial Market Evidence*


*Menu Effects*


**Behavioral Economics**

**Persuasion**


**Social Pressure**


**Emotions**


**Market Response to Biases**


*Market Response to Biases: Politicians*


*Market Response to Biases: Welfare Maximization*

Edited Collections


Advances in Behavioral Economics (2003)
http://press.princeton.edu/titles/7607.html

TABLE OF CONTENTS
PART ONE: INTRODUCTION 1
CHAPTER ONE
Behavioral Economics: Past, Present, Future by Colin F. Camerer and George Loewenstein 3
PART TWO: BASIC TOPICS 53
REFERENCE-DEPENDENCE AND LOSS-AVERSION
CHAPTER TWO
Experimental Tests of the Endowment Effect and the Coase Theorem by Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler 55
CHAPTER THREE
Mental Accounting Matters by Richard H. Thaler 75
PREFERENCES OVER RISKY AND UNCERTAIN OUTCOMES
CHAPTER FOUR
Developments in Nonexpected-Utility Theory: The Hunt for a Descriptive Theory of Choice under Risk by Chris Starmer 104
CHAPTER FIVE
Prospect Theory in the Wild: Evidence from the Field by Colin F. Camerer 148
INTERTEMPORAL CHOICE
CHAPTER SIX
Time Discounting and Time Preference: A Critical Review by Shane Frederick, George Loewenstein, and Ted O'Donoghue 162
CHAPTER SEVEN
Doing It Now or Later by Ted O'Donoghue and Matthew Rabin 223
FAIRNESS AND SOCIAL PREFERENCES
CHAPTER EIGHT
Fairness as a Constraint on Profit Seeking: Entitlements in the Market by Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler 252
CHAPTER NINE
A Theory of Fairness, Competition, and Cooperation by Ernst Fehr and Klaus M. Schmidt 271
CHAPTER TEN
Incorporating Fairness into Game Theory and Economics by Matthew Rabin 297
CHAPTER ELEVEN
Explaining Bargaining Impasse: The Role of Self-Serving Biases by Linda Babcock and George Loewenstein 326
GAME THEORY
CHAPTER TWELVE
Theory and Experiment in the Analysis of Strategic Interaction by Vincent P. Crawford 344
CHAPTER THIRTEEN
Behavioral Game Theory: Predicting Human Behavior in Strategic Situations by Colin F. Camerer 374
PART THREE: APPLICATIONS 393
MACROECONOMICS AND SAVINGS
CHAPTER FOURTEEN
Mental Accounting, Saving, and Self-Control by Hersh M. Shefrin and Richard H. Thaler 395
CHAPTER FIFTEEN
Golden Eggs and Hyperbolic Discounting by David Laibson 429
CHAPTER SIXTEEN
The Fair Wage-Effort Hypothesis and Unemployment by George A. Akerlof and Janet L. Yellen 458
CHAPTER SEVENTEEN
Money Illusion by Eldar Shafir, Peter Diamond, and Amos Tversky 483
LABOR ECONOMICS
CHAPTER EIGHTEEN
Fairness and Retaliation: The Economics of Reciprocity by Ernst Fehr and Simon Gächter 510
CHAPTER NINETEEN
Labor Supply of New York City Cab Drivers: One Day at a Time by Colin F. Camerer, Linda Babcock, George Loewenstein, and Richard H. Thaler 533
CHAPTER TWENTY
Wages, Seniority, and the Demand for Rising Consumption Profiles by Robert H. Frank and Robert M. Hutchens 548
CHAPTER TWENTY-ONE
Incentives, Punishment, and Behavior by Uri Gneezy and Aldo Rustichini 572
FINANCE
CHAPTER TWENTY-TWO
Myopic Loss-Aversion and the Equity Premium Puzzle by Shlomo Benartzi and Richard H. Thaler 590
CHAPTER TWENTY-THREE
Do Investors Trade Too Much? by Terrance Odean 606
CHAPTER TWENTY-FOUR
Loss-Aversion and Seller Behavior: Evidence from the Housing Market by David Genesove and Christopher Mayer 633
PART FOUR: NEW FOUNDATIONS 657
CHAPTER TWENTY-FIVE
Case-Based Decision Theory by Itzhak Gilboa and David Schmeidler 659
CHAPTER TWENTY-SIX
Out of Control: Visceral Influences on Behavior by George Loewenstein 689

Choices, Values, and Frames (2000)
http://books.google.com/books?id=P5GsREMbUmAC&dq=choices+values+frames&printsec=fr
ontcover&source=bn&hl=en&ei=SgeOSuTPGNPEmQe50IG6DA&sa=X&oi=book_result&ct=r
esult&resnum=4#v=onepage&q=&f=false

1. Choices, values, and frames by Kahneman and Tversky

Part I. Prospect Theory and Extensions
2. Prospect theory: an analysis of decision under risk by Kahneman and Tversky
3. Advances in prospect theory: cumulative representation of uncertainty by Tversky and Kahneman

Part II. The Uncertainty Effect and the Weighting Function
4. Compound invariant weighting function in prospect theory by Prelec
5. Weighing risk and uncertainty;
6. A belief-based account of decision under uncertainty;

Part III. Loss Aversion and the Value Function
7. Loss aversion in riskless choice: a reference-dependent model;
8. Anomalies: the endowment effect, loss aversion, and status quo bias;
9. The endowment effect and evidence of nonreversible indifference curves;
10. A test of the theory of reference-dependent preferences;

Part IV. Framing and Mental Accounting
11. Rational choice and the framing of decisions;
12. Framing, probability distortions, and insurance decisions;
13. Mental accounting matters;

Part V. Applications
14. Toward a positive theory of consumer choice;
15. Prospect theory in the wild: evidence from the field;
16. Myopic loss aversion and the equity premium puzzle;
17. Fairness as a constraint on profit seeking: entitlements in the market;
18. Money illusion;
19. Labor supply of New York City cab drivers: one day at a time;
20. Are investors reluctant to realize their losses?;
21. Timid choices and bold forecasts: a cognitive perspective on risk taking;
22. Overconfidence and excess entry: an experimental approach;
23. Judicial choice and disparities between measures of economic values;
24. Contrasting rational and psychological analyses of political choice;
25. Conflict resolution: a cognitive perspective;

Part VI. The Multiplicity of Value: Reversals of Preference
26. The construction of preference;
27. Contingent weighting in judgment and choice;
28. Context-dependent preferences;
29. Ambiguity aversion and comparative ignorance;
30. The evaluability hypothesis: explaining joint-separate preference reversals and beyond;

Part VII. Choice over Time
31. Preferences for sequences of outcomes;
32. Anomalies in intertemporal choice: evidence and an interpretation;

Part VIII. Alternative Conceptions of Value
33. Reason-based choice;
34. Value elicitation: is there anything in there?;
35. Economists have preferences, psychologists have attitudes: an analysis of dollar responses to public issues;

Part IX. Experienced Utility
36. Endowments and contrast in judgments of well-being;
37. A bias in the prediction of tastes;
38. The effect of purchase quantity and timing on variety-seeking behavior;
39. Back to Bentham? Explorations of experience utility;
40. New challenges to the rationality assumption.