

# Syllabus

## Psychology and Economic Theory

- **Instructor:** Marc Kaufmann; Office: 402, Nador 13; Email: KaufmannM@ceu.edu
- **Credits:** 4 CEU / 8 ECTS
- **Term:** Fall 2018-2019
- **Course level:** PhD and MA/MSc (but see Prerequisites)
- **Prerequisites:** A graduate course in microeconomics (email/talk to me otherwise)
- **Class Times:** Tuesday and Thursday, 13:30-15:10
- **Location:** TBD

### Course description

This course will explore ways to integrate insights from psychology into economics, formalizing these insights by extending existing economic models. We will look at two ways of enriching classical economic models. First, we will look at a richer set of preferences that people have, such as present bias, loss aversion, news utility, and social preferences. Second, we will consider ways in which people misperceive or misoptimize when making decisions – such as naive present bias, narrow bracketing, projection bias, and focusing effects.

The emphasis of this course is, first and foremost, on how to formalize psychological insights. As such, this course can only be taken for credit for students who have taken (at least) a graduate course in microeconomics (although everyone is welcome to audit the course and participate actively in the classes).

The second goal of the course is to show how these formal models can be applied, the predictions they make, and the implications they have in important economic settings, ranging from retirement savings and addiction to labor supply and consumption decisions.

This class is aimed at students interested in doing research – whether applied theory (with a strong focus on empirical implementability) or theoretically influenced empirics.

## Learning outcomes

During this course you will:

1. learn how to extend the classical economic framework by formally modeling insights from psychology;
2. learn how to apply these models to specific contexts to draw out new implications and make (falsifiable and often falsified) predictions;
3. be exposed to (a small subset of) the frontier of research in behavioral economics;
4. gather research ideas; and
5. improve how you communicate these ideas by writing short research proposals.

## Assessments

The assessments below add up to 120% – this is intentional.

### Assessment: Problem Sets (60%) and Exam (30%)

The exam is on December 13<sup>th</sup>, 9:00-12:00.

Problem set 1 is due on October 16<sup>th</sup>, by the start of the class, not later. There will be a 5% penalty for anything past the first 5 minutes (not 6, not 7) of the start of the class, 10% after the class.

**Note on working with others on problem sets:** You are encouraged to work together on the problem sets, but you are not allowed to read others' answers from past or present problem sets, and should hand in solutions separately that reflect your own understanding. You should acknowledge collaborators and describe the extent of collaboration at the top of the relevant assignments. While collaboration is allowed, directly copying someone else's work is not, and will be considered a violation of the university's code of ethics.

### Assessment: Research Ideas and interaction (30%)

Submit 5 research ideas by every Sunday night, 23:59 via Moodle. I will provide examples and clearer guidelines. I have to see if I can get *interaction* going in the way I imagine – in case I don't, the points go to research ideas.

## Office Hours (Room 402, Nádor 13) and Emails

You are very welcome to come and talk to me, especially to get help with the problem sets and to talk about research ideas. **I strongly encourage you to drop by at least once in the first few weeks – you do not need to have any pressing questions.**

**Drop-in Office Hours, Friday 13:00-14:30:** These are open office hours, which means they are open to multiple students at once; if fellow students are in my office, please join in

(although make sure to knock first in case there is a reason to wait outside). Feel free to show up in groups.

**Scheduled Office Hours:** If either the times of the drop-in office hours don't work for you, or you want individual office hours for whatever reason, feel free to sign up for scheduled office hours (link to be added soon). If none of the offered times work for you, email me ([KaufmannM@ceu.edu](mailto:KaufmannM@ceu.edu)) and I will try to find another time that works.

Note that office hours end sharply on time, so make sure you arrive with enough time to ask the question you have.

**Emails:** Feel free to email me at [KaufmannM@ceu.edu](mailto:KaufmannM@ceu.edu), especially if you feel something was unclear or if you have a quick question that can be answered well by email. If I feel that it is too difficult to answer by email, I may ask you to come to office hours.

## **Tentative Course schedule and Essential Reading**

Essential reading means that you should read it. I won't directly test it, but if you are even remotely interested in the topics, you should read them, even if it means to just read the abstract and skim the intro for 3-5 minutes.

I only include those readings that are closest and most relevant to what we will cover. I provide an extensive list taken from Ben Bushong that is an entry point for the larger literature, where you should go when you are interested in a specific topic.

### **Introduction (~ ½ lecture)**

This syllabus

DellaVigna, Stefano. 2009. "Psychology and Economics: Evidence from the Field." *Journal of Economic Literature* 47(2): 315-372.

### **1. Non-classical preferences**

#### **Present Bias (~ 5 lectures)**

O'Donoghue, Ted, and Matthew Rabin. 1999. "Doing It Now or Later." *The American Economic Review* 89 (1): 103-24.

Madrian, Brigitte C., and Dennis F. Shea. 2001. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *Quarterly Journal of Economics* 116(4): 1149-1187. DellaVigna, Stefano, and Ulrike Malmendier. (2006): "Paying Not to Go to the Gym." *American Economic Review*, 96(3): 694-719.

#### **Reference Dependence (~ 5 lectures)**

Koszegi, B. and M. Rabin. (2006): "A Model of Reference-Dependent Preferences," *Quarterly Journal of Economics*, 121(4), 1133-1166.

Crawford, V. P., and Meng, J. (2011). New york city cab drivers' labor supply revisited: Reference-dependent preferences with rational-expectations targets for hours and income. *The American Economic Review*, 101(5), 1912-1932.

Kőszegi, Botond and Matthew Rabin. (2009): "Reference-Dependent Consumption Plans," *American Economic Review*, 99(3): 909-936.

### **Social Preferences (~ 2 lectures)**

Charness, G. and Rabin, M. (2002): "Understanding Social Preferences with Simple Tests," *Quarterly Journal of Economics*, 117 (3): 817-869.

Dana, J., R. Weber, and J. Kuang. (2007): "Exploiting moral wriggle room: experiments demonstrating an illusory preference for fairness." *Economic Theory*, 33, 67-80.

### **2. Limited Rationality**

Rabin, Matthew. (2013): "Incorporating Limited Rationality into Economics," *Journal of Economic Literature*, 51(2): 528-543

### **Narrow Bracketing and Mental Accounting**

Rabin, Matthew, and Georg Weizsäcker. "Narrow bracketing and dominated choices." *The American economic review* 99.4 (2009): 1508-1543.

### **Mispredictions and misperceptions (~ 3 lectures)**

Loewenstein, G., O'Donoghue, T. and Rabin, M., 2003. Projection Bias in Predicting Future Utility. *The Quarterly Journal of Economics*, 118(4), pp.1209-1248.

Eyster, Erik, and Matthew Rabin. (2005): "Cursed Equilibrium." *Econometrica*, 73(5): 1623-1672.

### **Focusing, choice-set dependence etc (~ 4 lectures)**

Kőszegi, Botond, and Adam Szeidl. "A model of focusing in economic choice." *The Quarterly Journal of Economics* 128.1 (2013): 53-104.

Bordalo, Pedro, Nicola Gennaioli, and Andrei Shleifer (2013), "Salience and Consumer Choice", *Journal of Political Economy* 121, (5): 803-843.