Syllabus

1. COURSE DESCRIPTION

Content.

This course will explore ways to integrate insights from psychology into economics, formalizing these insights by extending existing economic models, and testing them in the lab or field. We will look at two ways of enriching classical economic models, with more emphasis on the second. First, we will briefly look at a richer set of preferences that people have, such as present bias, loss aversion, news utility, and social preferences. This year we will focus primarily on present bias, with only passing mention of the others. 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, and secondarily on how to test this. 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.

Relevance.

This class is aimed at students interested in doing research – whether applied theory (with a strong focus on empirical implementability) or theoretically influenced empirics. Additionally, it should be valuable to interpret and understand existing research literature, primarily providing some skepticism when evaluating it, whether for policy or otherwise.

2. LEARNING OUTCOMES

Key outcomes. By the end of the course, students will

- learn how to extend the classical economic framework by formally modeling insights from psychology;
- learn how to apply these models to specific contexts to draw out new implications and make (falsifiable and often falsified) predictions;
- be exposed to (a small subset of) the frontier of research in behavioral economics; and

- gather research ideas.

3. READING LIST

Introduction

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

Present Bias

- 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.

Implicit Preferences

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

- Cunningham, Tom, and Jonathan de Quidt. "Implicit preferences inferred from choice." *Working paper* (2016).

Narrow Bracketing and Mental Accounting

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

- Kőszegi, Botond, and Filip Matějka. "Choice simplification: A theory of mental budgeting and naive diversification." *The Quarterly Journal of Economics* 135.2 (2020): 1153-1207.

Mispredictions and misperceptions

- 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, framing, and friends

- 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.

4. TEACHING METHOD AND LEARNING ACTIVITIES

The course will involve a mix of lectures, together with in-class problem solving based on problem sets. Specifically, learning objectives will be achieved through
- 80% lectures by the instructor
- 20% in-class problem solving based on problem sets

5. ASSESSMENT

Grading will be based on the total score out of 100, in line with CEU's standard grading guidelines.

1 Two problem sets (25% + 25% + 5% + 5% = 60%): 25% for each problem set, 5% extra for problem 0 and for self-grading of each problem set. See *problem-set-policy.pdf* on Moodle.

2 Research Ideas (20%): see *research-ideas.pdf* on Moodle.

3 Take-home Exam (30%): The exam will be an exam in the last class, Wednesday March 31st, 15:00-16:40 (CET). Let me know if due to the timezone you are in, this exam is at a really bad time for you.

Your grade will be out of a total of 110. A score of 105 will lead to the same grade as a score of 100. I will probably grade the score out of 100 on a curve for final grading.

6. TECHNICAL REQUIREMENTS

None.

7. TOPIC OUTLINE AND SCHEDULE

Session	Topics	Readings (see Reading List)
1-2	Present Bias, naive and sophisticated	
3-4	Narrow Bracketing and Mental Accounting	
5-7	Mispredictions and misperceptions	
8-9	Focusing, framing, and friends	
10-11	Implicit preferences	
12	Exam	

8. SHORT BIO OF THE INSTRUCTOR

Marc Kaufmann is Assistant Professor at CEU Department of Economics and Business. He graduated from Harvard University with a PhD in Economics in 2017. He also holds MMath from the University of Cambridge. Prof. Kaufmann does applied theory in what will soon be what was used to be known as behavioral economics. His current research

projects center around projection bias and narrow bracketing, including experimentally measuring these biases, as well as exploring how they affect work decisions.