

**Public Economics Group**

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## Behavioral Economics

Lecturer:	Tim Friehe
Time & Place:	Friday 12-14, Am Plan 1
First lecture:	October 20, 2023
Tutor:	Hyomin Kim
Tutorial:	Monday 16-18, Am Plan 1
First tutorial:	October 23, 2023
Grading:	Exam at the end of the term (120 minutes)

### Description:

Behavioral Economics is a field of economics that emerged out of several empirical and experimental puzzles. It seeks to enrich standard theory with psychological realism. Behavioral Economics, thereby, may improve the accuracy of economic models' behavioral predictions. The field is still growing rapidly and offers quite diverse topics.

This course will introduce students to core issues in the field, focusing mostly on the data-guided attempts to enrich theoretical modeling. We will cover the role of reference points in risk-free and risky decision-making, discuss how intertemporal decision-making may be conceptualized more realistically than in the traditional framework, elaborate on social preferences, and touch upon the relationship between behavioral economics and welfare economics.

## **Contents:**

- 1) Introduction
- 2) Reference dependence
  - Status Concerns
  - The endowment effect and loss aversion
  - Decisions involving risk
- 3) Intertemporal decision-making
  - The standard model
  - Prominent alternative models
  - Self-control
- 4) Social preferences
  - Fairness and outcomes
  - Fairness, outcomes, and intentions
  - Identity and Image
- 5) Behavioral Economics and Public Policy

## **Course material:**

Slides and exercise sheets can be found in the ILIAS course.

## **Interesting textbooks include:**

Angner, E., 2020. A Course in Behavioral Economics. 3<sup>rd</sup> edition. Palgrave Macmillan.

Cartwright, E., 2014. Behavioral Economics. 2<sup>nd</sup> edition. New York: Routledge.

Dhami, S., 2016. The foundations of behavioral economic analysis. Oxford: Oxford University Press.

Wilkinson, N., and M. Klaes, 2012. An Introduction to Behavioral Economics. 2<sup>nd</sup> edition. New York: Palgrave Macmillan.

## **Interesting survey articles include:**

Barberis, N.C., 2013. Thirty Years of Prospect Theory in Economics: A Review and Assessment. *Journal of Economic Perspectives* 27, 173-196.

DellaVigna, S., 2009. Psychology and Economics: Evidence from the Field. *Journal of Economic Literature* 47, 315-372.

Frederick, S., Loewenstein, G., and T. O'Donoghue, 2002. Time Discounting and Time Preference: A Critical Review. *Journal of Economic Literature* 40, 351-401.

Kőszegi, B., 2014. Behavioral Contract Theory. *Journal of Economic Literature* 52, 1075-1118.

**Entertaining readings include:**

Akerlof, G.A., and R.J. Shiller, 2009. *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. Princeton: Princeton University Press.

Kahneman, D., 2011. *Thinking, Fast and Slow*. New York: Farrar, Straus and Giroux.

Thaler, R., 2015. *Misbehaving*. New York: W. W. Norton & Company.

This syllabus may be updated as the course progresses.

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