

Public Economics Group

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Marburg, September 27, 2018

— **Behavioral Economics**

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| Potential participants: | Students in the Master of Science in Economics and Institutions Program; Modules “TIE” and “CE” |
| Lecturer: | Tim Friehe |
| Time & Place: | Friday 8-10, Altes Amtsgericht +2/0090 |
| First lecture: | October 19, 2018 |
| Tutor: | Hannes Rusch |
| Tutorial: | Wednesday 12-14, Am Plan 2 |
| First tutorial: | October 24, 2018 |
| Grading: | Exam at the end of the term |

— **Description:**

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

This course will content itself with introducing students to some core issues in the field, focusing mostly on the attempts to enrich theoretical modelling. 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 sketch some aspects of Behavioral Game Theory. If time allows, the relationship between behavioral economics and welfare economics will also be touched upon.

Contents:

- 1) Introduction
- 2) Reference dependence
 - Status Concerns
 - The endowment effect and loss aversion
 - Decisions involving risk
- 3) Intertemporal decision-making
 - The standard model
 - Empirical findings
 - Prominent alternative models
 - Self-control
- 4) Social preferences
 - Fairness and outcomes
 - Fairness, outcomes, and intentions
 - Identity and Image
- 5) Behavioral Game Theory
 - Strategic Thinking
 - Learning
- 6) Behavioral Economics and Welfare

Course material:

A set of slides will be uploaded to ILIAS for each topic (password presented in first lecture). These slides will provide you with appropriate references for further study. Moreover, there will be an ILIAS folder containing the exercise sheets.

The course will primarily rely on the following text:

Cartwright, E., 2014. Behavioral Economics. 2nd edition. New York: Routledge.

Other textbooks of interest include:

Angner, E., 2012. A Course in Behavioral Economics. Palgrave Macmillan.

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

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

Interesting survey articles include:

Carlsson, F., and O. Johansson-Stenman, 2012. Behavioral Economics and Environmental Policy. Annual Review of Resource Economics 4, 75-99.

Crawford, V.P., Costa-Gomes, M.A., and N. Iriberri, 2013. Structural models of Nonequilibrium Strategic Thinking: Theory, Evidence, and Applications. Journal of Economic Literature 51, 5-62.

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 includes:

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.

This version: September 27, 2018