17/08/2020

In addition to part-I (General Handout for all courses appended to the timetable) this portion gives further specific details regarding the course

Course No.	: **ECON F345**
Course Title	: **BEHAVIORAL ECONOMICS**
Instructor-in-Charge	: **Dushyant Kumar**
Instructors	: **Bheemeshwar Reddy A., Dushyant Kumar**

1. Scope and objective of the course:

Behavioral economics focuses on incorporating insights from psychology with regard to human behavior to enrich the standard economic analysis. One of the main tools to arrive at these insights is the lab as well as natural experiments. The aim is to improve the explanatory and predictive power of standard (neoclassical) economic theory. People might behave 'irrationally' (irrational as defined in standard economic theory), moreover in a systematic and predictive way, hence incorporating these irrationalities is going to enrich the analysis of human behavior. In the last two decades or so, behavioral economics has established itself as a prominent subarea in economics.

This course is aimed to provide an introduction and overview of behavioral economics. We will be covering topics such as heuristics and biases, decision making under uncertainty, prospect theory, reference dependence, intertemporal choice.

Upon the successful completion of the course, the students will be able to understand how behavioural economics builds on traditional economic models and psychology. They will be able to better understand and appreciate the real life phenomenon such as saving decisions, overconfidence, rule of thumb, sub-optimal consumer choice, etc. They will be able to demonstrate knowledge of some of the main theoretical and empirical findings, and apply the main concepts from this field to a variety of contexts.

The course is an introductory course. Familiarity with Microeconomics (ECON F242) is expected.

2.   Text Book (TB):
Sanjit Dhami: *The Foundations of Behavioural Economic Analysis : Volume I: Behavioural Economics of Risk, Uncertainty, and Ambiguity*, Oxford University Press, 2019.

3.   Reference Book:

R1.   Erik Angner: *A Course in Behavioral Economics*, Palgrave macmillan education, Second edition, 2016.

R2.   Edward Cartwright: *Behavioral Economics*, Routledge Taylor & Francis Group, 2014.

R3.   Daniel Kahneman: Thinking, Fast and Slow, Penguin Press (2012)

R4.   Dan Ariely: P*redictably Irrational: The Hidden Forces that Shape Our Decisions*, Harper Collins, 2010.

R5.   Richard H Thaler: *Misbehaving: The Making of Behavioural Economics*, Penguin, 2016.

4. Course Plan:

Lecture No.	Learning Objectives	Topics to be covered	References
Module 1: Introduction to Behavioral Economics			
1-2	Overview of the Behavioral Economics	Introduction: Scope and Coverage, Origin, Role of Experiments, Replication Issues	Introduction (TB), Chapter 1 (R1)
3-5	Introduction to Some Theoretical Foundations of Behavioral Economics	1. Prospect Theory 2. Human Sociality and Inequality Averse Preferences 3. The Quasi-Hyperbolic Model and Self-Control Problems 4. Level-k and Cognitive Hierarchy Models	Introduction, Section 5 (TB), notes
6-8	Introduction to Decision-Making under Certainty and Behavioral Issues	Opportunity Costs and Sunk Costs- Relevance in Decision Making, Menu Dependence, Anchoring, Heuristics and Rules of the Thumb	Chapter 3 (R1), notes
Module 2: Behavioral Models of Decision Making			
9-11	Introduction to the Standard Expected Utility Theory and the Evidence on Human Choice under Risk and Uncertainty	Expected Utility Theory: Axioms, Independence Axiom, Evidence of Violations	Chapter 1 (TB), notes
12-13	Rank Dependent Utility (RDU) Theory	Attitudes to risk under RDU, Drawbacks	Chapter 2.3, notes
14-19	Introduction to Prospect Theory and Its Applications	Elicitation of utility functions and probability functions, Axiomatic foundations, Limitations	Chapter 2 (TB), notes
20-22	Introduction to Prominent Alternative Decision Theories	Regret Theory, Disappointment Aversion	Chapter 2 (TB), notes
Module 3: Applications of Behavioral Decision Theory			
23-28	Introduction to Various Applications of Behavioral Decision Theories and	1. The endowment effect and exchange asymmetries 2. Myopic loss aversion	Chapter 3 (TB), notes

	Evidences	3. Goals as reference points 4. Contracts as reference Points	
Module 4: Behavioral Theory and Intertemporal Choice			
29-33	Introduction to Behavioral Issues in the Case of Intertemporal Choice	Exponential Discounting, Hyperbolic Discounting, Nudge, Other Issues	Chapter 8-9 (R1), notes
Module 5: Learning and Social Interactions			
34-37	Learning from New Information	Bayesian Updating, Confirmatory Bias, Law of Small Numbers	Chapter 5 (R2), notes
38-42	Interacting with Others	The Beauty Contest, Level-k Thinking, Focal Points, Learning from Experience	Chapter 6 (R2), notes

5. Learning Outcomes:

Module 1: Introduction to Behavioral Economics
The students will be introduced to the field of behavioral economics. They will get to know its applications, scope and relevance. We will be overviewing some of the core concepts in this field.

Module 2: Behavioral Models of Decision Making
The students will learn about the main drawbacks of standard expected utility theory. What are the alternative ways to analyse people's behavior under uncertainty, how does prospect theory help us better understand people's behavior, how does the issue of regret and disappointment affect our decision making process; the students will be able to analyze all these issues after going through this module.

Module 3: Applications of Behavioral Decision Theory
In this module, the students will learn about various applications of behavioral theory concepts. How does having different endowments affect our decision making, how does having different goals and reference points affect our decision making; the students will be able to analyze these issues in a systematic manner after going through this module.

Module 4: Behavioral Theory and Intertemporal Choice
For most of our decisions, the consequences are not instant. It is realised over time. How should we incorporate this time element in our decision making? How does people incorporate future payments and incomes in their considerations, what policy incentivises people to save for the future properly; the students will be able to analyze all these issues after going through this module.

Module 5: Learning and Social Interactions
People try to use new information to improve their decisions. How do people typically incorporate the new information? When individuals work as a group, the outcome is going to be interdependent. How do people typically coordinate with others, what are the ways to improve?

6. Evaluation Scheme:

EC	Evaluation	Duratio	Weighta	Date & Time	Nature of Component

No.	Component	n	ge		
1	Test 1	30 min.	15	September 10 – September 20 (During scheduled class hour)	OB
2	Test 2	30 min.	15	October 09 –October 20 (During scheduled class hour)	OB
3	Test 3	30 min.	15	November 10 – November 20 (During scheduled class hour)	OB
4	Assignment/Problem sets-viva (3)	--	15	To be announced	OB
5	Quizzes (5)	--	15	To be announced	OB
6	Comprehensive Exam.	3 hrs.	25	TBA	OB

7. **Chamber Consultation hours:** 03:00-04:00 PM, Thursday**.**

8. **Notices:** Notices would be displayed on the course **CMS** page.

9. **Make-up Policy**: Make-up will be granted only on genuine grounds and if prior permission is taken through official email only. Request for make up after the test/exam would not be entertained at all.

10. **Academic Honesty and Integrity Policy:** Academic honesty and integrity are to be maintained by all the students throughout the semester and no type of academic dishonesty is acceptable.

Instructor-in-Charge
ECON F345