

MGT 854

BEHAVIORAL ECONOMICS: THE PSYCHOLOGY AND BEHAVIOR OF INDIVIDUALS, ORGANIZATIONS, AND MARKETS

2023 (Spring-1)

**Tuesday & Thursday
Evans Hall 4400**

Section 1:	10:10am – 11:30am
Section 2:	1:00pm – 2:20pm
Section 3:	2:40pm – 4:00pm

Professors:

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Course Description

This class attempts to reunite the disciplines of psychology and economics, which began drifting apart about a century ago. We will consider how predictions of economic behavior differ when several assumptions that simplify economic models are replaced with psychologically realistic assumptions based on empirical observations of actual behavior in the lab and the world. We will illustrate the implications of these modified assumptions for markets, management, and public policy.

Course Materials

There are two required books (together they cost less than \$29):

- [Thinking Fast and Slow](#)
- [Nudge](#)

The remaining readings will either be posted online or handed out in class.

Grading

Final grades will be based on the following:

- | | |
|-------------------------|-----|
| 1) Class Participation | 20% |
| 2) Homework Assignments | 30% |
| 3) Final Exam | 50% |

Schedule

Class	Date	Topic	Professor
1	Tue, Jan 24	Introduction to Behavioral Economics	Frederick
2	Thu, Jan 26	Heuristics and Biases	Frederick
3	Tue, Jan 31	Markets That Move (and are moved by) Beliefs	Ederer
4	Thu, Feb 2	Risk Preferences	Frederick
5	Tue, Feb 7	Prospect Theory	Frederick
6	Thu, Feb 9 Homework 1 due	Applications of Prospect Theory	Ederer
7	Tue, Feb 14	Time Preferences	Frederick
8	Thu, Feb 16	Markets for Self-Control and Safety	Ederer
9	Tue, Feb 21 Homework 2 due	Markets with Consumer Inattention	Ederer
10	Thu, Feb 23	Peer Effects and Status Concerns	Ederer
11	Tue, Feb 28	Gender and Competition	Ederer
12	Thu, Mar 2 Homework 3 due	Changing Behavior	Frederick
13	Tue, Mar 7	Final Exam (in class)	

FAQs

Registration

Please direct all queries and requests regarding course enrollment to SOMregistrar@yale.edu

Eligibility

Anybody is welcome to enroll. There are no prerequisites. We will try to accommodate all requests, subject to seat constraints (84 per section).

MGT 855 (How to Run and Design Business Experiments) is taught in Spring-2, by Shane Frederick. It is a course on experimental design and data guided decision making. It shows how to measure the effects of some of the psychological variables we discuss in 854. Aside from that, the two courses are distinct. You can take either or both. 854 is not a prerequisite for 855, nor is 855 an advanced version of 854.

Attendance (SUBJECT TO CHANGES OF COVID-19 SITUATION!)

We will not track attendance formally and hence we will likely not notice if you are absent. *However*, we do hope and expect you to come, and will randomly cold call about six students per section per session. Failure to respond due to absence will be viewed even less favorably than inability to respond despite presence. If we discover your absence this way, we will request some account and expect answers of the following type: childbirth, death in family, contagious illness. Assuming typical enrollments and absentee rates, phantom students would face a 67% chance of detection. Furthermore, positive contributions to class discussion are rewarded and these obviously require your presence.

Homework

We expect you to complete these by *yourself*. The Professors or TAs are available as resources if you are struggling. The use of ChatGPT is allowed in this class, but trust us it won't help. We will post the answers almost immediately after the time homework is due, and, hence, **we will not accept any late submissions**. Your homework will be returned prior to the next homework assignment. Please submit your homework via Canvas. To be added to Canvas as a Shopper please email the registrar at SOMregistrar@yale.edu.

Why are there so many sports examples in this class?

This class focuses on departures between actual behavior and normative models of behavior. Sports are often ideal in this regard because success and failure are clearly defined and the action space of possible behaviors is conveniently small (e.g., punt, pass, or run). Hence a normative model can usually be specified. Second, since experienced participants play under constant rules for high stakes over long periods of time with detailed numerical records, we can examine how (and theorize about *why*) behavior "in equilibrium" departs from optimal strategy. Third, concepts are often more difficult to acquire as theoretical abstractions than when illustrated by specific concrete examples. While the specific concrete *sports* examples we use will not resonate with everyone, they will resonate with more people than any *other* specific concrete example we could use (e.g., how regulatory changes in the 1970s affected maritime insurance contracts in Austria). We emphasize that these examples are offered only in service of concept acquisition. If you prefer more abstraction, or require different examples to attain the central concept, please see us, and we'll endeavor to customize our pedagogy.

Readings

➤ Class 1: INTRODUCTION TO BEHAVIORAL ECONOMICS

- No readings for the first class.

➤ Class 2: HEURISTICS AND BIASES

- Frederick, S. (2002): "[Automated Choice Heuristics](#)" in T. Gilovich, D. Griffin, and D. Kahneman [eds]. *Heuristics & Biases: The Psychology of Intuitive Judgment*. New York. Cambridge University Press: 548-558.

➤ Class 3: MARKETS THAT MOVE (AND ARE MOVED BY) BELIEFS

- Gentzkow, M., and J. Shapiro (2008): "[Competition and Truth in the Market for News](#)," *Journal of Economic Perspectives*, 22(2): 133-154.
- Yurukoglu, A.: "[How Biased News Impacts Your Vote](#)," Stanford Business Insights.
- **OPTIONAL:** DellaVigna, S., and E. Kaplan (2007): "[The Fox News Effect: Media Bias and Voting](#)," *Quarterly Journal of Economics*, 122(3): 1187-1234.

➤ Class 4: RISK PREFERENCES

- Rabin, M., and R. Thaler (2001): "[Anomalies: Risk Aversion](#)," *Journal of Economic Perspectives*, 15(1): 219-232.

➤ Class 5: PROSPECT THEORY

- Kahneman, D., and A. Tversky (1979): "[Prospect Theory: An analysis of decision under risk](#)," *Econometrica*, 47: 263-291.

➤ Class 6: APPLICATIONS OF PROSPECT THEORY

- Barberis, N. (2013): "[Thirty Years of Prospect Theory in Economics: A Review and Assessment](#)," *Journal of Economic Perspectives*, 27(1): 173-196. (**NOTE:** Skip the section on Finance as this will be discussed extensively in Nick Barberis's Behavioral Finance class.)
NOTE: Homework 1 due at the beginning of class.

➤ Class 7: TIME PREFERENCE AND DYNAMIC (IN)CONSISTENCY

- Frederick, S. (2006): "[Valuing future life and future lives: A framework for understanding discounting](#)," *Journal of Economic Psychology*, 27: 667-680.

- **Class 8: MARKETS THAT CAPITALIZE ON LIMITS OF SELF-CONTROL**
 - Surowiecki, J. (2012): "[Delayed Gratification](#)," *The New Yorker*.
 - DellaVigna, S., and U. Malmendier (2004): "[Contract Design and Self-Control](#)," *Quarterly Journal of Economics*, 119(2): 353-402. (**NOTE:** Skip Section 2 of this paper unless you have extensive experience with, or interest in, formal modeling.)
- **Class 9: SHROUDED PRICES: MARKETS THAT EXPLOIT CONSUMER INATTENTION**
 - Gabaix, X. and D. Laibson (2006): "[Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets](#)," *Quarterly Journal of Economics*, 121(2): 505-540. (**NOTE:** Focus on the introduction, the rest is optional.)
 - Chetty, R., Looney, A., and C. Kroft (2009): "[Salience and Taxation: Theory and Evidence](#)," *American Economic Review*, 99(4): 1145-77. (**NOTE:** Focus on the introduction, the rest is optional.)

NOTE: Homework 2 due at the beginning of class.
- **Class 10: CHANGING BEHAVIOR: INCENTIVES AND NUDGES**
 - [Nudge](#), Chapters 1-6.
- **Class 11: PEER EFFECTS AND STATUS CONCERNS**
 - Ederer, F. (2014): "[Why do our peers financial decisions affect our own?](#)" Yale Insights.
 - Ederer, F. (2014): "[What does an economist make of the ice bucket challenge?](#)" Yale Insights.
 - Shue, K. (2013): "[Executive Networks and Firm Policies: Evidence from the Random Assignment of MBA Peers](#)," *Review of Financial Studies*, 26(6): 1401-1442. (**NOTE:** Focus on the introduction, the rest is optional.)
- **Class 12: GENDER AND COMPETITON**
 - Niederle, M. (2015): "[Gender](#)" *Handbook of Experimental Economics*. (**NOTE:** This is a very long survey article with an extraordinary amount of information. Read selectively, in particular the parts that you find most interesting.)

NOTE: Homework 3 due at the beginning of class.
- **Class 13: FINAL EXAM (in class)**