ECON 589: Behavioral Economics

Fall, 2021

Instructor: Foteini Tzachrista Class Hours: MWF 10:50-11:40AM E-mail: foteini@email.sc.edu Classroom: DMSB 137 (& virtual)

Drop-In Hours: W 12:00-1:00PM (or by appt)

Course Description:

"However beautiful the strategy, you should occasionally look at the results"

- Sir Winston Churchill

Behavioral Economics studies deviations from the standard neoclassical model in terms of preferences, beliefs, learning, decision-making and market reactions to such deviations. In this class specifically, we will analyze the simplifying assumptions behind the standard economic models. We will introduce behavioral models that are based on psychologically realistic assumptions. Based on the theoretical models we will also discuss how these modified assumptions affect markets, management, and public policy. Empirical observations from the lab and the real world will also be discussed.

Learning Objectives:

By the end of this course, students should be able to:

- 1. Know the virtues and limitations of the rational actor model and its application to choice theory and the behavioral sciences.
- 2. Recognize biases and heuristics that affect human behavior.
- 3. Compare rational choice and behavioral models of decision making under risk and uncertainty.
- 4. Understand intertemporal decision making, the difficulties people have when making intertemporal choices and how to derive more accurate descriptive models.
- 5. Analyze games of strategic decision and how considerations of fairness, justice, reciprocity, trust and limited strategic thinking matter to people's performance in such games.

- 6. Ask meaningful questions with important potential answers, synthesize different ideas and theories within the behavioral sciences.
- 7. Relate behavioral models to "real-life" applications in personal finance, development economics, personnel economics, and self-control.

Prerequisites:

Principles of Economics: Econ 221 or equivalent

Course Website:

blackboard.sc.edu - Lectures, announcements, the course syllabus, lecture slides, assignments, grades and any other additional documents will be available on Blackboard.

Course Requirements:

• Face-to-face Format:

This course follows a traditional face-to-face format. Due to the COVID-19 outbreak and the new Delta variant, you are highly encouraged to get vaccinated, you must wear your face mask in-class and please maintain distance with others.

If you feel sick and/or you are diagnosed with COVID-19, please stay home. If you come in contact with someone that was sick with or without COVID-19, please stay home. On the days you are home, you can and you are advised to attend the class online. As long as university policy allows, the class will be streamed live using Blackboard Collaborate Ultra. You will not be penalized if you decide to stream the class from home. If you get sick you are not required to inform me. If you decide to, I will not inform the class of your condition or trace your contacts with others in the class.

The typical activities in the face-to-face classroom will include engaging with me and your classmates in question and answer sessions, solving problems, taking exams, discussing major concepts and practicing difficult key concepts. The rest of the work in this course will occur online on Blackboard. Online activities and in-class activities are designed to build on each other.

• Course Materials:

Required Text

A Course in Behavioral Economics by Erik Angner. Macmillan International Higher Education. ISBN 9781352010800

Recommended

Thinking, Fast and Slow, by Daniel Kahneman

Misbehaving: The making of behavioral economics, by Richard Thaler

Behavioral Economics, by Edward Cartwright

Predictably Irrational, by Dan Ariely

Nudge: Improving Decisions About Health, Wealth, and Happiness, by Richard Thaler and Cass Sunstein

Economics 2.0, by Norbert Haring and Olaf Storbeck

Animal Spirits, by George Akerlof and Robert Shiller

Rational Choice in an Uncertain World: The Psychology of Judgment and Decision Making, by Reid Hastie and Robyn Dawes

We will be using supplementary readings, primarily published research articles, to complement Erik Angner's book. The assigned readings of every week are included in the weekly schedule of this syllabus (down below). You are required to read the highlighted key papers in advance to prepare for class.

• Lectures:

As long as technology and university policy allows, lectures will be streamed live on Blackboard Collaborate Ultra on the Classroom tab. As long as I am allowed to, I will keep the classroom recordings available on Blackboard Collaborate to be accessed at any time during the semester for review purposes. However, to keep up with the class, you are **strongly** encouraged to stream them live if you are not physically in the classroom.

• In-class attendance:

During every lecture, you will be asked to complete a short quiz or survey for attendance. The completion of the in-class form, and *not your grade on it*, will be considered for extracredit points. You can complete the in-class attendance if you are attending the class inperson or streaming it but not if you are watching it later. If for whatever reason you are attending the class in real time but miss the short window given to complete the attendance form you need to let me know immediately or right after class. Especially if you are streaming the class live, you are *highly* encouraged to participate through comments and in question and answer sessions to ensure that your attendance will be considered.

• Slides:

Weekly slides will be uploaded on Blackboard. The slides may change during the week as we progress through the material. In that case, the slides will be updated. The slides will not include all of the examples we cover in class or the solutions to those examples. The majority of slides closely follow the coursebook.

• Drop-in Hours:

I will hold drop-in hours on Blackboard Collaborate or in my office if requested. If you come to my office you are highly encouraged to wear your face mask or ask me and I will give you one. During this time you are more than welcomed to ask questions about the material, assignments etc. When online, drop-in hours will not be recorded.

• Assignments:

Every other week or so there will be an assignment posted on Blackboard. There will be 6 assignments in total. Every assignment will consist of around 20 questions. You

will have unlimited attempts without any time constraint to complete them. The purpose of the assignment is to get more practice and become more familiar with the material. Assignments will be posted after we finish a section, typically on Fridays. The dates each assignment is posted and due are indicated on the class schedule down below, but are subject to change as announced in class. Answers will be posted by the instructor after the deadline of each assignment for review purposes. There will be no make-ups for any reason. It is your responsibility to make sure that you submit your answers before the due date and time and that you take the assignment on a reliable computer with a strong internet connection to avoid any issues.

• Exams:

There will be two exams in this class. Each exam will test the material that was taught up until the week prior to the exam. The material of any given exam may change at the instructor's discretion. You will take all of the exams in-person. If you are sick or need to take the exam online due to a disability, please inform the instructor as soon as possible. If you are late for a virtual or an in-person exam you will have less time to omplete it too. There will be no make-ups for missed exams except in extreme conditions (injuries/accidents, illness, or death in the family). In any of these cases, please inform me as soon as reasonably possible otherwise, you are risking the entire exam credit points.

Class projects:

You will have to complete two class projects in this class; a research project and a case study analysis. For the research project you will have to form a novel research question and propose a valid method of answering it. In the case study you will act as a consultant. You will be given a "real world" problem that you need to address in an executive summary and a presentation in class. Your classmates will give feedback on your presentation. The rubrics of how you will be graded for each assignment will be given along with a detailed description of each task at hand. You will be graded based on quality not quantity. For both assignments you can work in teams of maximum 3 people, **if you desire to**. If you decide to form a team (for either assignment) you need to let me know by 11/22. No changes will be allowed past that deadline. If you work in teams, you will also have to provide feedback on your collaboration that will be taken into consideration for each team member's individual grade. The dates that these two assignments will be posted and their due dates are included in the class schedule down below.

• Student Feedback:

You will be asked to give feedback on your peers' presentations in the case study. Your feedback will be also evaluated according to a rubric provided in the description of the assignment.

• Course Communication:

If you are having any trouble with this course or its material, please contact me via email or after class to discuss any issues.

I will communicate with you mainly through announcements on Blackboard whenever necessary. If there is any other information I think is important, I will send it to the email

address you have on Blackboard. It is your responsibility to ensure that your email account works properly in order to receive email.

Here is how you can check your primary email address on Blackboard:

- Access blackboard.sc.edu
- Click your name on the main Blackboard navigation panel on the left
- Review your email address. By default, Blackboard uses your university-issued email address.

Your email address on Blackboard coincides with your preferred university email. If you are unsure of your preferred email, check your account. For more information on setting your preferred university email, please see the How To Change Your Primary University Email Address article.

Technology Requirements:

The lecture recordings will be provided on Blackboard. Therefore, you must have access to the Internet to view/hear lectures. No special software is required.

The lecture slides and assignments are located on Blackboard, as well. To participate in learning activities and complete assignments, you will need:

- Access to a working computer that has a current operating system with updates installed, plus speakers or headphones to hear lecture presentations;
- Reliable Internet access and a UofSC email account;
- A current Internet browser that is compatible with Blackboard (Mozilla Firefox and Google Chrome are the recommended browsers for Blackboard);
- Any PDF reader that you might want to use to view material and enough storage space if you opt to save the class material.

Minimal Technical Skills Needed

Minimal technical skills are needed in this course. Most course work will be completed and submitted on Blackboard or in-person. Therefore, you must have consistent and reliable access to a computer and the Internet. The minimal technical skills you have include the ability to:

- Organize and save electronic files;
- Use UofSC email and attached files;
- Check email and Blackboard daily;
- Locate information with a browser; and
- Use Blackboard.

Technical Support

If you have problems with your computer, technology, IT-related questions, support, including Blackboard, please contact the Division of Information Technology (DoIT) Service Desk at (803)777-1800 or submit an online request through the Self-Service Portal or visit the Carolina Tech Zone. The Service Desk is open Monday – Friday from 8:00 AM – 6:00 PM (Eastern Daylight Time). If you are located in the Columbia, SC area, the Thomas Cooper Library at UofSC has computers for you to use in case you encounter computer issues/problems. If you are not located in the Columbia, SC area, most regional campuses and public libraries have computers for public use.

Grading:

You can earn a total of 100 points. Grades are based on the following items:

• Quizzes:

15% or 15 points in total. The lowest quiz grade will be dropped. Each of the other 5 graded quizzes is worth 3 points.

- Exams:
 - Exam 1: 20% or 20 points
 - Exam 2: 20% or 20 points
- Research Project: 20% or 20 points in total.
- Case Study: 20% or 20 points in total.
- Feedback: 5% of 5 points in total
- Extra credit:
 - *In-class participation:* 2 bonus points on your total grade for missing 3 in-class quizzes/surveys or less.
 - *Course Evaluation:* 1 bonus point on your total grade if 80% of the class completes the class evaluation at the end of the semester.

• Anticipated Grading Scale:

The final score from the above elements will determine the letter grade based on the following scale:

- A 90.0 and up
- B+ 87.0-89.9
- B 80.0-86.9
- C+ 77.0-79.9
- C 70.0-76.9
- D+ 67.0-69.9
- D 60.0-66.9
- F 59.9 and below

There will be no changes to the grading scale. Grades will be rounded to the nearest whole number and NOT up to the next whole number. This means that 89.5% will be rounded to 90% but 89.4% will be rounded to 89%. There will NOT be ANY CURVING in this class.

Accommodations:

1. Disability Services:

Accommodations are available for students with a documented disability. If you have a disability and need accommodations, contact the Office of Student Disability Services: phone number 803-777-6142, email saprctr@mailbox.sc.edu, or stop by Close-Hipp building Room 102. For more information check the Student Disability Services website. All accommodations must be approved through the Office of Student Disability Services. The instructor must be notified of all accommodations before the first exam.

2. Student Success Center

In partnership with UofSC faculty, the Student Success Center (SSC) offers a number of programs to assist you in better understanding your course material and to aid you on your path to success. SSC programs are facilitated by professional staff, graduate students, and trained undergraduate peer leaders who have previously excelled in their courses.

3. Writing Center

This course has two writing assignments. The University Writing Center is an important resource you should use! It's open to help any UofSC student needing assistance with a writing project at any stage of development. The main Writing Center is in Byrnes 703.

4. University Library Resources

University Libraries has access to books, articles, subject specific resources, citation help, and more. If you are not sure where to start, please ask a librarian at the live chat feature of the website.

5. Counseling Services

The University offers counseling and crisis services as well as outreach services, self-help, and frequently asked questions.

Course and University Policies:

1. Face Masks:

The university is requiring face coverings to be worn at all times when inside all campus buildings. As a result, students are required to wear a face mask even **during** the class. If a student refuses to cover their face and refuses to leave, that student can be reported to the Office of Student Conduct. Please contact me beforehand if any exception applies due to a disability/medical condition. More details on face covering can be found here.

2. Diversity, Equity and Inclusion:

The university is committed to a campus environment that is inclusive, safe, and respectful for all persons, and one that fully embraces the Carolinian Creed. To that end, all course activities will be conducted in an atmosphere of friendly participation and interaction among colleagues, recognizing and appreciating the unique experiences, background, and point of view each student brings. You are expected at all times to apply the highest academic standards to this course and to treat others with dignity and respect.

Every student in this class comes from a different background. My biggest goal in this class is to provide an atmosphere of learning that is representative of a variety of perspectives. The discipline of Economics would be heavily deprived in the absence of diverse opinions. Questioning is a big part of learning so any questions and concerns are welcomed. Good discussions can be energetic and passionate but are neither abusive nor offensive. I am also committed to ensuring course accessibility for all students. If you need any special accommodations please notify me at least one week before accommodation is needed.

3. Title IX and Gendered Pronouns [credit to Dr. David Moscowitz]

This course affirms equality and respect for all gendered identities and expressions. Please don't hesitate to correct me regarding your preferred gender pronoun and/or name if different from what is indicated on the official class roster. Likewise, I am committed to nurturing an environment free from discrimination and harassment. Consistent with Title IX policy, please be aware that I as a responsible employee am obligated to report information that you provide to me about a situation involving sexual harassment or assault.

4. Copyright and the use of course materials:

Lectures and course materials (which is inclusive of recordings of any presentations, lectures or discussions, problem sets, tests, exams, outlines, and lecture notes) are protected by copyright. You are encouraged to take notes and utilize course materials for your own educational purpose. However, you are not to reproduce or distribute this content without my expressed written permission. This includes sharing course materials to online social study sites like CourseHero and other services or posting the recording of class video content to any external website or service. Students who publicly reproduce, distribute or modify course content maybe in violation of the university Honor Code's Complicity policy, which prohibits sharing academic work with another student (either in person or electronically) without the permission of the instructor.

5. Computers and Other Electronic Devices:

The use of electronic devices is permitted in class only for taking notes and only in the back rows so other students are not distracted. Headphones are not allowed during class.

6. Academic Integrity:

Students are expected to follow the University of South Carolina Honor Code and Darla Moore School of Business Code of Student Conduct. Students found responsible for violations of the Code will be subject to academic penalties under the Code in addition to whatever disciplinary sanctions are applied. Cheating on a test or copying someone else's work will result in a zero for the work and possibly a grade of F in the course. Additionally, violators will be referred to the University Committee for Academic Responsibility and may be expelled from the University.

Honor Code:

"It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. Any student who violates this Honor Code or who knowingly assists another to violate this Honor Code shall be subject to discipline."

Darla Moore School of Business Code of Student Conduct for Undergraduate Students:

The Darla Moore School of Business is recognized globally for educating students who are prepared to become responsible business and civic leaders. An effective learning environment where students and faculty value integrity, professionalism and diligence is foundational to this mission.

Consistent with these values, the Student Leadership Council and the faculty of the Darla Moore School of Business expect students to:

- (a) spend a minimum of two hours outside of class studying for each hour of classroom time;
- (b) exhibit classroom behavior that is respectful to faculty and fellow students;
- (c) refrain from the use of phones and other electronic equipment during class, unless permitted by the instructor;
- (d) arrive at class on time, actively participate in class, and not leave class early;
- (e) keep up with assigned readings and complete assignments on time;
- (f) contribute fully to team assignments;
- (g) respect the university's staff and be responsible stewards of its facilities; and
- (h) abide by the University of South Carolina Honor Code Approved by the Undergraduate Student Leadership Council and the Faculty of the Darla Moore School of Business. By enrolling in this class, you are bound by the Honor Code and Code of Conduct.

Schedule:

The schedule is tentative and subject to change. An updated schedule will be posted on Blackboard in case there are any changes. You can use the schedule as a study guide before each exam, and at the end of the semester. This is NOT an exhaustive list of all the topics covered in class. Key papers we will talk about are marked with an asterisk (*). Please read in advance (at least) the key papers of the week ahead.

Week 0, 08/16 - 08/20: Introduction 08/20 - 1st Day of Class!!!

Week 1, 08/23 - 08/27: Rational Choice under Certainty

• Chapter 2

Readings:

- * Huber, Joel, John W. Payne, and Christopher Puto. Adding asymmetrically dominated alternatives: Violations of regularity and the similarity hypothesis. Journal of consumer research 9.1 (1982): 90-98.
- * Davidai, Shai, Thomas Gilovich, and Lee D. Ross. The meaning of default options for potential organ donors. Proceedings of the National Academy of Sciences 109.38 (2012): 15201-15205.
- Ariely, Dan (2008), Predictably Irrational: The Hidden Forces that Shape our Decisions, New York, NY: Harper. (pp 1-6)
- Redelmeier, Donald A., and Eldar Shafir. Medical decision making in situations that offer multiple alternatives. Jama 273.4 (1995): 302-305.

Week 2, 08/30 - 09/03: Decision Making under Certainty

- Chapter 3
- Assignment 1 available 09/03 after class due 09/10, 10:50 AM (Before Class)

Readings:

- * Arkes, H.R. and Blumer, C., 1985. The psychology of sunk cost. Organizational behavior and human decision processes, 35(1), pp.124-140.
- * Kahneman, Daniel, and Amos Tversky. Prospect theory: An analysis of decision under risk. In Handbook of the fundamentals of financial decision making: Part I, (pp. 277-280, "The value function" section only, we will come back to this paper in week 6).
- Iyengar, Sheena S., and Mark R. Lepper. When choice is demotivating: Can one desire too much of a good thing?. Journal of personality and social psychology 79.6 (2000): 995.
- Camerer, Colin F. Taxi drivers and beauty contests. Engineering and science 60.1 (1997): 10-19.

Week 3, 09/06 - 09/10: Probability Judgment

- 09/06 Labor Day Holiday (no class)
- Chapter 4
- 09/08 Research Project details posted

Readings:

- * Pratt, John W. (1964), Risk Aversion in the Small and in the Large, Econometrica, 32, 122-136. [Except from sections 3, 5, 8, 9.2, 10, and 13]
- Buehler, Roger, Dale Griffin, and Michael Ross. Exploring the planning fallacy: Why people underestimate their task completion times. Journal of personality and social psychology 67, no. 3 (1994): 366.
- Bar-Hillel, Maya (1980), The base-rate fallacy in probability judgments, Acta Psychologica, 44 (3), 211–33.

Week 4, 09/13 - 09/17: Judgment under Risk

- Chapter 5
- Assignment 2 available 09/17 after class due 09/24, 10:50 AM (Before Class)

Readings:

- * Tversky, Amos and Daniel Kahneman (1974), Judgment under uncertainty: Heuristics and biases, Science, 185 (4157), 1124–31.
- * Angner, Erik. Economists as experts: Overconfidence in theory and practice. Journal of Economic Methodology 13, no. 1 (2006): 1-24.
- Tversky, Amos, and Daniel Kahneman. Extensional versus intuitive reasoning: The conjunction fallacy in probability judgment. Psychological review 90, no. 4 (1983): 293.
- Tversky, Amos, and Eldar Shafir. The disjunction effect in choice under uncertainty. Psychological science 3, no. 5 (1992): 305-310.

Week 5, 09/20 - 09/24: Rational Choice under Uncertainty

Chapter 6

Readings:

- Allingham, Michael (2002), Choice Theory: A Very Short Introduction, Oxford: Oxford University Press
- Peterson, Martin (2009), An Introduction to Decision Theory, New York, NY: Cambridge University Press.

Week 6, 09/27 - 10/01: Decision Making under Uncertainty

- Chapter 7
- Assignment 3 available 10/01 after class due 10/04, 10:50 AM (Before Class)

Readings:

- * Kahneman and Tversky (1979), Prospect Theory: An Analysis of Decision under Risk, Econometrica, 47, 263-292.
- * Fox, Craig R., and Amos Tversky (1995), Ambiguity Aversion and Comparative Ignorance, Quarterly Journal of Economics, 110, 585-603.
- Tversky, Amos, and Richard H. Thaler (1990), Anomalies: Preference Reversals, Journal of Economic Perspectives, 4, 201-211.

Week 7, 10/04 - 10/08: Review & Exam 1

- 10/04 Review
- 10/06 Exam 1
- 10/08 Fall Break (no class)

Week 8, 10/11 - 10/15: The Discounted Utility Model

- Chapter 8
- Assignment 4 available 10/15 after class due 10/22, 10:50 AM (Before Class)

Readings:

- * Watts, Tyler W., Greg J. Duncan, and Haonan Quan. Revisiting the marshmallow test: A conceptual replication investigating links between early delay of gratification and later outcomes. Psychological science 29, no. 7 (2018): 1159-1177.
- * Mischel, Walter. The marshmallow test: Understanding self-control and how to master it. Random House, 2014.
- Thaler, Richard H., and Hersh M. Shefrin. An economic theory of self-control. Journal of political Economy 89, no. 2 (1981): 392-406.

Week 9, 10/18 - 10/22: Intertemporal Choice

- Chapter 9
- Assignment 5 available 10/22 after class due 10/29, 10:50 AM (Before Class)

Readings:

- * Frederick, Shane, George Loewenstein, and Ted O'Donoghue (2002), Time Discounting and Time Preference: A Critical Review, Journal of Economic Literature, 40, 351-401.
- O'Donoghue, Ted, and Matthew Rabin (1999), Doing it now or later, American Economic Review, 89, 103-124
- Ariely, Dan, and Klaus Wertenbroch. Procrastination, deadlines, and performance: Self-control by precommitment. Psychological science 13, no. 3 (2002): 219-224.
- Read, Daniel and Barbara van Leeuwen (1998), Predicting hunger: The effects of appetite and delay on choice, Organizational Behavior and Human Decision Processes, 76 (2), 189–205.
- Ariely, Dan and George Loewenstein (2006), The heat of the moment: The effect of sexual arousal on sexual decision making, Journal of Behavioral Decision Making, 19 (2), 87–98.

Week 10, 10/25 - 10/29: Analytical Game Theory

• Chapter 10

Readings:

- * Frank, Robert H., Thomas Gilovich, and Dennis T. Regan (1993), Does studying economics inhibit cooperation?, The Journal of Economic Perspectives, 7 (2), 159–71.
- Schelling, Thomas C. (1960), The Strategy of Conflict, Cambridge, MA: Harvard University Press. (p 57)
- Szuchman, Paula and Jenny Anderson (2011), Spousonomics: Using Economics to Master Love, Marriage and Dirty Dishes, New York, NY: Random House. (pp 295-8)

Week 11, 11/01 - 11/05: Behavioral Game Theory

- Chapter 11
- Assignment 6 available 11/05 after class due 11/12, 10:50 AM (Before Class)

Readings:

- * Camerer, Colin F. (2003), Behavioral Game Theory: Experiments in Strategic Interaction, New York, NY: Russell Sage Foundation
- * Holt, Charles A. (2019), Markets, Games, and Strategic Behavior: An Introduction to Experimental Economics, 2nd ed., Princeton, NJ: Princeton University Press
- Dawes, Robyn M. and Richard H. Thaler (1988), Anomalies: Cooperation, The Journal of Economic Perspectives, 2 (3), 187–97.
- Bicchieri, Cristina (2005), The Grammar of Society: The Nature and Dynamics of Social Norms, Cambridge: Cambridge University Press.
- Ellingsen, Tore, Magnus Johannesson, Johanna Möllerstrom, and Sara Munkhammar (2012), "Social framing effects: Preferences or beliefs?," Games and Economic Behavior, 76 (1), 117–30.
- Charness, Gary, and Matthew Rabin (2002), Understanding Social Preferences with Simple Tests, Quarterly Journal of Economics, 117, 817-869.
- Engelmann, Dirk, and Martin Strobel (2004), Inequality Aversion, Efficiency, and Maximin Preferences in Simple Distribution Experiments, American Economic Review, 94, 857-869.
- Trautmann, Stefan T. (2009), A Tractable Model of Process Fairness under Risk, Journal of Economic Psychology, 30, 803-813.
- Bolton, Gary E., Jordi Brandts, and Axel Ockenfels (2005), Fair Procedures: Evidence from Games involving Lotteries, Economic Journal, 115, 1054-1076.

Week 12, 11/08 - 11/12: Review & Exam 2

- 11/08 Review
- 11/10 Exam 2

Week 13, 11/15 - 11/19: Behavioral Policy & Interventions

- Chapter 12 & The Behavioral Economics Guide
- 11/15 Case study posted

Week 14, 11/22 - 11/26: Behavioral Policy & Interventions

- 11/22 Deadline for teams to verify the team members
- 11/24 & 11/26 Thanksgiving Break (no class)

Week 15, 11/29 - 12/03: Presentations

- Case study student presentations
- Case study executive summary due the day of presentations (announced in class)

Week 16, 12/06 - 12/10: Final's week

• No Final Exam - Research Project deadline due 12/06, 9AM