

Topics in Economic Theory I-Part I: Choice Theory

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Course 2011-2012

The theory of choice plays a central role in modern economics. The classical rational choice theory views the decision-maker as having a stable well-behaved preference relation, making choices by maximizing such a preference relation. Over the last decades, however, mounting evidence has been accumulated documenting systematic violations of this notion of rationality.

In this course we review the latest developments on boundedly rational choice theory under certainty. The focus is theoretical, but at the same time we will emphasize the connections with the empirical evidence, and other sorts of motivations for the new theoretical developments.

The outline of the course is the following:

1. Introduction: objectives, motivation, and methodology.

2. A brief review of classical rational choice theory.

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3. Questions on the classical rational choice theory: empirical evidence.

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Bushong, B., L. M. King, C.F. Camerer, and A. Rangel (2010), "Pavlovian Processes in Consumer Choice: The Physical Presence of a Good Increases Willingness-to-Pay," *American Economic Review*, 100(4): 1556-71.

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Iyengar, S. and E. Kamenica (2010), "Choice proliferation, simplicity seeking, and asset allocation," *Journal of Public Economics* 94 (2010) 530-539.

Iyengar, S. and M. Lepper (2000), "When choice is demotivating: Can one desire too much of a good thing". *Journal of Personality and Social Psychology*, 76, 995-100.

Kahneman, D., J.L. Knetsch, and R.H. Thaler (1990). "Experimental Tests of the Endowment Effect and the Coase Theorem," *Journal of Political Economy*, 98: 1325-48.

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Simonson, I. (1989), "Choice Based on Reasons: The Case for the Attraction and Compromise Effects." *Journal of Consumer Research*, 16(2): 158-74.

Tversky, A. (1969), "Intransitivity of Preferences," *Psychological Review*, 76:31-48.

Tversky, A. and E. Shafir (1992). "Choice under conflict: The dynamics of deferred decision." *Psychological Science*, 3, 6, 358-361

4. Reference-dependent models.

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Bleichrodt, H. (2007), "Reference-Dependent Utility with Shifting Reference Points and Incomplete Preferences," *Journal of Mathematical Psychology* 51:266-276.

Bossert, W. and Y. Sprumont (2003), "Non-Deteriorating Choice," *Mathematical Social Sciences*, 45:131-142.

Dean, M. (2008), "Status Quo Bias in Large and Small Choice Sets", mimeo.

Giraud, R (2010), "Money matters: an axiomatic theory of the endowment effect" *Economic Theory*, forthcoming.

Köszegi, B. and M. Rabin (2006), "A Model of Reference-Dependent Preferences", *Quarterly Journal of Economics*, 121:1133-1165.

Mandler, M. (2004), "Status quo maintenance reconsidered: changing or incomplete preferences," *Economic Journal*, 114, 518-535.

Masatlioglu, Y. and E. Ok (2005), "Rational Choice with Status Quo Bias", *Journal of Economic Theory*, 121, No. 1, 1-29.

Masatlioglu, Y. and E.A. Ok (2011), "A Canonical Model of Choice with Initial Endowments," mimeo.

Munro, A. and Sugden, R. (2003), "On the Theory of Reference-Dependent Preferences," *Journal of Economic Behavior and Organization*, 50:407-428.

Ok, E.A., P. Ortoleva and G. Riella (2010), "Revealed (P)reference Theory," mimeo.

Sagi, J. (2006), "Anchored Preference Relations," *Journal of Economic Theory*, 130:283-295.

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5. Sequential models.

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Manzini, P. and M. Mariotti (2007), "Sequentially Rationalizable Choice," *American Economic Review*, 97:1824-1839.

Manzini, P. and M. Mariotti (2011), "Choice by lexicographic semiorders" *Theoretical Economics*, forthcoming.

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Masatlioglu, Y., D. Nakajima and E.Y. Ozbay (2010), "Revealed Attention," *American Economic Review*, forthcoming.

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6. Other multi-criteria models.

Ambrus, A. and K. Rozen (2011) "Rationalizing Choice with Multi-Self Models" *mimeo*.

Apesteguia, J., Ballester, M. (2010). The computational complexity of rationalizing behavior. *Journal of Mathematical Economics* 46, 356-363.

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7. Search.

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Masatlioglu, Y., and D. Nakajima (2009). "Choice by Iterative Search." Mimeo.

Papi, M. (2011), "Satisficing Choice Procedures." Mimeo.

Rubinstein, Ariel and Yuval Salant (2006), "A Model of Choice from Lists", *Theoretical Economics*, 1, 3-17.

8. Measures of rationality.

Afriat, S.N. (1973), "On a System of Inequalities in Demand Analysis: An Extension of the Classical Method," *International Economic Review*, 14:460–472.

Apesteguia, J and M.A. Ballester (2011), "A Measure of Rationality and Welfare," mimeo.

Beatty, T and I. Crawford (2010), "How Demanding is the Revealed Preference approach to Demand?," *American Economic Review*, forthcoming.

Dean, M. and D. Martin (2010), "How Rational are your Choice Data?," mimeo.

Houtman, M. and J.A. Maks (1985), "Determining All Maximal Data Subsets Consistent with Revealed Preference." *Kwantitatieve Methoden*, 19:89–104.

Varian, H.R. (1990), "Goodness-of-Fit in Optimizing Models," *Journal of Econometrics*, 46:125–140.

9. Behavioral welfare analysis.

Apesteguia, J and M.A. Ballester (2011), "A Measure of Rationality and Welfare," mimeo.

Baldiga, K.A. and J.R. Green (2010), "Choice-based Measures of Conflict in Preferences," mimeo.

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Rubinstein, A. and Y. Salant (2011), "Eliciting Welfare Preferences from Behavioral Datasets," *Review of Economic Studies*, forthcoming.