

Behavioral Economics
Fall 2016

Course information

Instructor: John Gardner, jrgardne@olemiss.edu, 366 Holman Hall

Time and place: MW, 3-415, 208 Lamar

Office hours: By appointment

URL: <http://blackboard.olemiss.edu>

Overview

At its heart, economics is the study of how individuals make decisions, and the consequences of those decisions. In *behavioral economics*, we try to understand why individuals sometimes act in ways that are inconsistent with the predictions of economic theory. There are two key factors that differentiate behavioral economics from theoretical economics. First, behavioral economics emphasizes what people *actually* do in reality over what they should do in theory. Second, behavioral economics relies more heavily on *experimental methods*; these methods are essential to understanding real-world behavior.

In some cases, behavioral economics can help us identify biases that interfere with decision-making. It can also improve welfare by helping people to, or helping policymakers help people to, avoid acting against their own best interest. In other cases, behavioral economics identifies limitations of economic theory itself, allowing us to improve our understanding of how individuals should make decisions.

Prerequisites

The prerequisite for this course is Econ. 398, Intermediate Microeconomics.

Textbooks

Angner, Erik. 2012. *A course in behavioral economics*. Palgrave Macmillan.

Ariely, Dan. 2008. *Predictably irrational*. New York: HarperCollins.

Assessment

The grading scale is 90+: A, 80-89: B, 70-79: C, 60-70: D, 59 or lower: F. No plus/minus grades will be awarded. I may change these criteria if warranted by the performance of the class.

Problem sets (40%). I will assign several problem sets asking students to analyze decision problems similar to the examples discussed in class and answer questions related to the readings.

Exam (30%). I will also give an in-class exam with a format similar to the problem sets to assess students' understanding of the material presented in class.

Experiments (30%). The class will be divided into groups, and each group will formulate and test a behavioral hypothesis. The hypotheses will be related to the phenomena discussed in class. Groups will test their hypotheses by designing experiments and running them on the class. *The experimental designs must be submitted for my approval in advance; I will provide a deadline for this.* Groups will also prepare and deliver to the class short presentation detailing their hypothesis, experimental design, empirical findings, and conclusions.

Course policies

Attendance. Attendance is mandatory. If you don't show up, you won't learn the material.

Missed exams. If you must miss an exam because of an official (University, civic, or recognized religious) obligation or a legitimate emergency and you (i) notify me at least one week in advance and (ii) adequately document your need to miss the exam, I will, at my discretion, either drop the exam from your score or provide a makeup exam.

Accommodations. If you require any accommodations (such as extra time, a different testing environment, etc.), please let me know as soon as possible. For more information on the University's policies regarding such accommodations, see <http://sds.olemiss.edu>.

Collaboration and plagiarism. All of the work that you submit for this course must be your own; any violation of this standard constitutes plagiarism. Any student found plagiarizing once will fail the assignment or exam; any student found twice will fail the course.

That said, you are permitted—indeed encouraged—to discuss and collaborate with each other on your homework assignments. However, each student must turn in their own completed assignment, demonstrating their own understanding of the material.

Collaboration is not allowed on the exams, which will be closed-book and closed-notes.

Late work. Absent extenuating circumstances, no credit will be awarded for late assignments.

Things with screens. They are not allowed. Put away your phone/laptop/tablet/watch/etc. and take notes on paper.

Outline and readings

1. Introduction (Introductory chapters of Angner and Ariely)
2. How we choose
 - Rational choice under certainty (Angner 2.1-2.7)
 - Opportunity costs (Angner 3.2), Keeping doors open (Ariely 8)
 - Sunk costs (Angner 3.3)
 - Menu dependence and the decoy effect (Angner 3.4), The truth about relativity (Ariely 1)
 - Loss aversion and the endowment effect (Angner 3.5), The high price of ownership (Ariely 7)
 - Anchoring (Angner 3.6), The fallacy of supply and demand (Ariely 2)
3. How we think about risk and uncertainty
 - Probability judgement (Angner 4.1-4.6)
 - The gambler's fallacy (Angner 5.2)
 - Conjunction and disjunction fallacies (Angner 5.3)
 - Base-rate neglect (Angner 5.4)
 - Confirmation bias (Angner 5.5)
 - Availability (Angner 5.6)
4. How we choose when things are risky and uncertain
 - Rational choice under risk and uncertainty (Angner 6.2-6.5)
 - Framing (Angner 7.2)

- Bundling and mental accounting (Angner 7.3)
 - The Allais paradox (Angner 7.4)
 - The Ellsberg paradox and ambiguity (Angner 7.5)
 - Probability weighting (Angner 7.6)
5. How we choose between now and later
- The discounted utility model (Angner 8.2-8.4)
 - Hyperbolic discounting (Angner 9.2), The problem of procrastination and self-control (Ariely 6)
6. How we interact with each other
- Analytical game theory (Angner 10.1-10.2)
 - Social preferences (Angner 11.2), The cost of social norms (Ariely 4)
 - Intentions, reciprocity and trust (Angner 11.3)