

JEB147 - BEHAVIORAL ECONOMICS

Bachelor level, elective course, IES FSV UK

Lecturers

Michal Bauer: bauerm@fsv.cuni.cz, office 402, office hours on Fridays 11:00-11:45am (email first please)

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Outline of the course

This course introduces the key concepts in behavioral economics, a modern and quickly emerging field that integrates insights from psychology into economics.

We will focus on the following topics: social preferences and fairness, time discounting and limited self-control, psychology of poverty, misperceptions, discrimination and group identity, behavioral public policy. After introducing the concepts, the classes will be largely based on discussion of research papers empirically testing behavioral economics ideas.

Requirements

A grade from this course will be based on a written final test, which will take place at the end of the course.

Grading: A = 90.1-100; B = 80.1-90; C = 70.1-80; D = 60.1-70; E = 50.1-60; F = 0-50.

There will be four dates for the final exam.

- December 22, 2023, 2:00-3:20pm in room 109
- January 12, 2024, 9:30-10:50am in room 314
- January 19, 2024, 9:30-10:50am in room 314
- February 16, 2024, 9:30-10:50am in room 314

For more details about the final exam, including sample questions, please see a separate document uploaded in SIS.

Pre-requisite

JEB104 – Microeconomics I

TOPIC 1: INTRODUCTION (Michal Bauer)

Main questions

- What is the definition of behavioral economics?
- How does behavioral economics differ from experimental economics?
- Overview of topics and requirements of this course

TOPIC 2: SOCIAL PREFERENCES (Michal Bauer)

Main questions

- Models of social preferences: altruism, inequality aversion, reciprocity, concern about social efficiency
- Evidence of trust and reciprocity in the laboratory
- Applications
 - How can social preferences help to explain unemployment?
 - Reciprocity on the labor market: Can employers motivate employees to exert more effort by giving them higher wages? Do wage cuts reduce effort?
 - Reciprocity in charitable giving: Can NGOs mobilize donations by distributing gifts?
 - Reciprocity in day care centers: Can introducing “market” crowd out fairness motives?

Readings for Topic 2

Fehr, E. and K. Schmidt. 1999. “A Theory of Fairness, Competition, and Cooperation.” *Quarterly Journal of Economics* 114(3): 817-868.

Charness, G. and M. Rabin. 2002. “Understanding Social Preferences with Simple Tests.” *Quarterly Journal of Economics* 117(3): 817-869.

Gneezy, U. and J. A List. 2006. “Putting behavioral economics to work: Testing for gift exchange in labor markets using field experiments.” *Econometrica* 74(5): 1365–1384.

Falk, A. 2007. “Gift exchange in the field.” *Econometrica* 75:1501–1511.

Kube, S., M. Maréchal and C. Puppe. 2006. “Putting Reciprocity to Work—Positive versus Negative Responses in the Field.” University of St. Gallen Department of Economics working paper series.

Kube, S., M. Maréchal and C. Puppe. 2011. “The currency of reciprocity— Gift-exchange in the workplace.” *American Economic Review* 102(2012): 1644-1662.

TOPIC 3: FORMATION OF SOCIAL PREFERENCES (Michal Bauer)

Main questions

- Are social preferences exogenous or shaped during childhood?
- How do social preferences develop with age during childhood and adolescence?
- Does parental background and social environment matter?

Readings for Topic 3

Fehr, E., H. Bernhard and B. Rockenbach. 2008. "Egalitarianism in young children." *Nature* 454: 1079–1083.

Bauer, M., J. Chytilová and B. Pertold-Gebicka. 2014. "Parental background and other-regarding preferences in children." *Experimental Economics* 17(1): 24-46.

Kosse, F., T. Deckers, P. Pinger, H. Schildberg-Hörisch and A. Falk. 2020. "The formation of prosociality: causal evidence on the role of social environment." *Journal of Political Economy* 128(2): 434-467.

Chowdhury, S., M. Sutter, K.F. Zimmermann. 2022. "Economic preferences across generations and family clusters: A large-scale experiment in a developing country." *Journal of Political Economy* 130(9): 2361-2410.

TOPIC 4: TIME DISCOUNTING AND LIMITED SELF-CONTROL (Michal Bauer)

Main questions

- Present-biased preferences and naivete: introducing the concepts
- Are people present-biased?
- Demand for commitment
 - Do people procrastinate? Can deadlines help?
 - Do people demand commitment when they want to save?
 - Do people demand commitment at work and does it help increase effort?

Readings for Topic 4

Ariely, D. and K. Wertenbroch. 2002. "Procrastination, deadlines, and performance: Self-control by precommitment." *Psychological Science* 13(3): 219–224.

Augenblick, N., M. Niederle and C. Sprenger. 2015. "Working over time: Dynamic Inconsistency in real effort tasks." *Quarterly Journal of Economics* 130(3): 1067-1115.

Ashraf, N., D. Karlan, and W. Yin. 2006. "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines." *Quarterly Journal of Economics* 121:635–672.

Kaur, S., M. Kremer and S. Mullainathan. 2015. "Self-Control at Work." *Journal of Political Economy* 123(6): 1227–77.

TOPIC 5: BEHAVIORAL ECONOMICS OF POVERTY (Michal Bauer)

- "Behavioral poverty trap" – why poverty may affect economic decision-making via psychological channels?
- Does poverty reduce cognitive skills, productivity and increase time preference?

Readings for Topic 5

Mullainathan, S. and E. Shafir. 2013. *Scarcity: Why Having Too Little Means so Much*. Time Books.

Haushofer, J. and E. Fehr. 2014. "On the Psychology of Poverty." *Science* 344(6186): 862–67.

Mani, A., S. Mullainathan, E. Shafir and J. Zhao. 2013. "Poverty Impedes Cognitive Function." *Science* 341(6149): 976–80.

Bartoš, V., M. Bauer, J. Chytilová and I. Levely (2021): “Psychological Effects of Poverty on Time Preference.” *Economic Journal* 131(638): 2357–2382.

Kaur, S., S. Mullainathan, S. Oh and F. Schilbach. 2021. “Do financial strains make workers less productive?” NBER working paper 22338.

TOPIC 6 (IF TIME ALLOWS): MISPERCEPTIONS AND INFORMATION (Michal Bauer)

- Do people have accurate beliefs about important facts or views of others?
- Do inaccurate beliefs (misperceptions) shape important life decisions?
- Can inaccurate beliefs be corrected by providing facts?
- How misperceptions affect schooling choices, health behavior and labor market participation?

Readings for Topic 6

Bartoš, V., M. Bauer, J. Čahlíková and J. Chytilová. 2022. “Communicating Doctors’ Consensus Persistently Increases COVID-19 Vaccinations.” *Nature* 606:542–549.

Bursztyn, L., A. González, and D. Yanagizawa-Drott. 2020. “Misperceived Social Norms: Female Labor Force Participation in Saudi Arabia.” *American Economic Review* 110(10):2997-3029.

Bursztyn, L. and D. Y. Yang. 2022. “Misperceptions about others.” *Annual Review of Economics* 14: 425-452.

Jensen, R. 2010. “The (perceived) returns to education and the demand for schooling.” *Quarterly Journal of Economics* 125(2): 515-548.

TOPIC 7: DECISION-MAKING IN GROUPS AND GROUP IDENTITY (Julie Chytilová)

Main questions

- Are there differences in decision-making of individuals and of groups? Are groups more rational? Are groups less pro-social?
- How can group identity influence economic outcomes?
- How can we measure the effects of group identity on behavior?

Readings for Topic 7

Kocher, M. and M. Sutter. 2005. “The decision maker matters: Individual versus group behaviour in experimental beauty-contest games.” *Economic Journal* 115(500): 200-223.

Benjamin, D. J., J. J. Choi and A. J. Strickland. 2010. “Social identity and preferences.” *American Economic Review* 100(4): 1913-28.

Cohn, A., E. Fehr and M. Maréchal. 2014. “Business Culture and Dishonesty in the Banking Industry.” *Nature* 516: 86–89.

Cohn, A., M. Maréchal and T. Noll. 2010. “Bad Boys: How Criminal Identity Salience Affects Rule Violation.” *Review of Economic Studies* 82(4): 1289–1308.

TOPIC 8: DISCRIMINATION (Julie Chytilová)

Main questions

- What are the standard economic explanations of discrimination?
- How can we measure existence of discrimination? Lab experiments, audit studies, correspondence experiments.
- Do we also discriminate sub-consciously?
- What are the consequences of discrimination?
- What affects discrimination?

Readings for Topic 8

Bertrand, M. and S. Mullainathan. 2004. “Are Emily and Greg more employable than Lakisha and Jamal? A field experiment on labor market discrimination.” *American Economic Review* 94:991–1013.

Fershtman, C. and U. Gneezy. 2001. “Discrimination in a Segmented Society: An Experimental Approach.” *Quarterly Journal of Economics* 116:351–377.

Corno, L., E. La Ferrara and J. Burns. 2022. Interaction, stereotypes, and performance: Evidence from South Africa. *American Economic Review* 112(12): 3848-3875.

Alesina, A., M. Carlana, E. La Ferrara and P. Pinotti. 2018. “Revealing Stereotypes: Evidence from Immigrants in Schools.” *NBER Working Paper* 25333.

TOPIC 9: BEHAVIORAL PUBLIC POLICY (Julie Chytilová)

Main questions

- How can the findings from behavioral economics be applied in public policies? Choice architecture, nudges and defaults.
- Examples – how to nudge people to save money and to save energy?
- How to balance freedom of choice and government interventions? Libertarian paternalism.

Readings for Topic 9

Madrian, B. C. and D. F. Shea. 2001. “The power of suggestion: Inertia in 401 (k) participation and savings behavior.” *Quarterly Journal of Economics* 116(4): 1149-1187.

Thaler, R. H. and S. Benartzi. 2004. “Save More Tomorrow: using behavioral economics to increase employee saving.” *Journal of Political Economy* 112:164–187.

Schultz, P. et al. 2007. “The constructive, destructive, and reconstructive power of social norms.” *Psychological Science* 18(5): 429-434.

DellaVigna, S. and E. Linos. 2022. “RCTs to scale: Comprehensive evidence from two nudge units.” *Econometrica* 90(1): 81-116.