Behavioral economics

Introduction

Michal Bauer

Definition

- Behavioral economics
  - name irritates people
  - are there any economists who aren't studying behavior?

- Other names you'll hear:
  - Psychology and economics
  - Psychological economics

- **Definition of behavioral economics**
  - Behavioral economics uses variants of traditional economic assumptions (often with a psychological motivation) to explain and predict behavior, and to provide policy prescriptions.
  - Adds psychology to economics, particularly cognitive psychology and social psychology

Behavioral economics

- BE is a series of amendments to (not a rejection of!) traditional economics
  - **More realistic assumptions about human decision-making**
  - Endorse a bigger theoretical playing field (but still insist on making falsifiable predictions).
  - Develop "economic models" that make precise and accurate predictions, without *requiring* all of the classical assumptions (like perfect rationality).

- In the following lectures we will focus on the following ideas from psychology (and sociology)
  - **Broader set of motivations: fairness, social preferences, identity, social norms**
  - **Imperfect self-control**
  - **Imperfect attention**
  - **Inaccurate beliefs**
  - **Preferences may not be fixed**

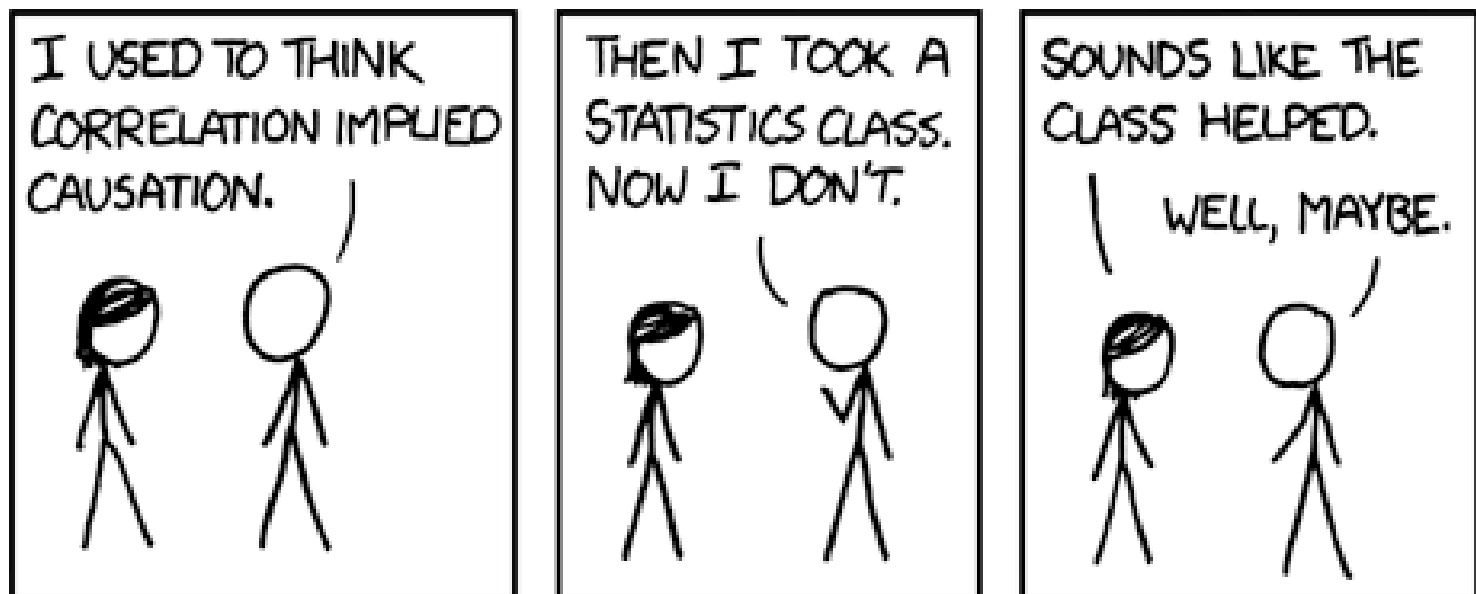# Contributors to Behavioral Economics

Experimental economics (≠ Behavioral economics)

- **Empirical method** frequently used to test predictions of behavioral economics

- Historically, **economics** has relied on observation of **naturally occurring processes.**
  - Advantage: these processes are observed in their undisturbed form
  - Disadvant.: it is difficult to establish causal relationships among observed variables

- **Advantages** of experiments
  - Researcher controls the environment (information and incentives) -> can estimate causal effects
  - Observing counterfactual scenarios that one is interested in but did not happen
- **Disadvantages**
  - Problems with external validity -> field experiments

Experimental economics (≠ Behavioral economics)

- Experimental approaches respond to skepticism about what we can learn from correlations -> tool to get closer to estimating causal effects

Organization

- In-person teaching only

- Some rules
  - I would love to get your questions or thoughts during the lecture, so please feel free to respond when I will ask. There are no wrong questions.
  - At the end of each lecture, I will give you chance to ask questions about anything, including organization of the course, where to find what, etc. I prefer this mode of asking questions, than asking questions individually via email.

Structure of the course

- Introduction (MB)
- Social preferences: concepts, applications, formation (MB)
- Time discounting and limited self-control (MB)
- Behavioral economics of poverty (MB)
- Misperceptions and information: health, schooling and labor market decisions (MB)

- Decision-making in groups (JC)
- Identity (JC)
- Discrimination (JC)
- Behavioral public policy (JC)

Outline of each lecture

Lectures

- Theory/intuition

- Evidence (mostly from controlled experiments)

- Applications to real-world issues (how to reward employees, tackling poverty, discrimination, …)

Goals

- Fostering curiosity and critical thinking about economics.

- Exposure to frontier economics research.

- Economics is a rich and exciting field. There is a lot we still don't know.

- Might help you make better decisions in life.

Organization

Lecturers

- Michal Bauer (MB), bauerm@fsv.cuni.cz, office 402, office hours: Appointments can be arranged via email.
- Julie Chytilová (JC), chytilova@fsv.cuni.cz, office 410

Sources

- Slides – will be posted in SIS
- Papers – this is a course for curious and interested students, reading strongly encouraged!

Pre-reqiusities

- Microeconomics I (needed for being able to contrast with BE)

Requirements and grading

Formal 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 – see SIS
  - 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

Informal requirement

- Be active: ask questions, agree, disagree, etc.
- That would make the course much more fun (at least for me:-)