

KAT.TAL.324
Advanced course in Behavioural and Psychological Economics
Winter 2025

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Course description

Behavioral (Psychological) Economics examines how economic behavior deviates from standard economic predictions when assumptions regarding preferences, beliefs, and decision-making processes are altered. While standard economic theory yields powerful and useful predictions, some of its main assumptions have been repeatedly shown to fail in certain contexts. Taking the standard theory as a starting point, we will study how these deviations from assumptions affect behavior. The implications are relevant for decision-making in various contexts, such as consumption and saving decisions, labor supply, and social policy.

Course guidelines

You should have taken Microeconomics I (KAT.TAL.202), Microeconomics II (KAT.TAL.204), and Mathematical Economics I (KAT.TAL.001) before you take this course. The prerequisites of this course is an appropriate understanding of individual decision-making. Although it is not a requirement for this course, I strongly recommend taking beforehand Advanced Course in Microeconomics I (KAT.TAL.302) and Advanced Course in Microeconomics II (KAT.TAL.304). In addition, it is useful to have had exposure to econometrics and empirical research. You should be familiar with basic econometric topics, such as hypothesis testing and panel data models.

The lectures are based on recent academic reviews. The ones most used are starred in the reading list. I strongly recommend accompanying the course development with the reading of these documents. In case reading the whole paper is not possible, I suggest that you at least read the introduction: much of the content of a paper is contained there.

There is an online repository for this course: github.com/martinbrun/TUNI-behavioral2025. All necessary materials will be uploaded there.

Exam

There will be one 3-hour exam that will cover the material of the whole course.

The exam date is 12.03.2025. The starting time is 17:00.

Grading

The final grade will be entirely determined by the final exam.

Reading list

The course is based on recent academic papers, including some that are still in progress. There is no single definitive source for the course, but DellaVigna (2009) comes closest. Reading this review is strongly recommended.

The rest of the papers are broadly classified according to the course structure. Papers signaled with asterisks are the most relevant.

Overviews

- 1.*** DellaVigna, S. (2009). 'Psychology and Economics: Evidence from the Field'. *Journal of Economic Literature*, 47(2): 315-372.
- 2.* Rabin, M. (2002). 'A Perspective on Psychology and Economics'. *European Economic Review*, 46(4-5): 657-685.
3. Bernheim, D., DellaVigna, S., & Laibson, D. (2019). *Handbook of Behavioral Economics-Foundations and Applications*. Volumes 1 and 2.
4. Rabin, M. (1998). 'Psychology and Economics'. *Journal of Economic Literature*, 36(1): 11-46.
5. Thaler, R. H. (2016). 'Behavioral Economics: Past, Present, and Future'. *American Economic Review*, 106(7): 1577-1600.
6. Thaler, R. H. (2017). 'Behavioral Economics'. *Journal of Political Economy*, 125(6): 1799-1805.

Non-standard Preferences

- 1.** Ericson, K. M., & Laibson, D. (2019). 'Intertemporal Choice'. In *Handbook of Behavioral Economics-Foundations and Applications* (Vol. 2, pp. 1-67).
- 2.** Fehr, E., & Charness, G. (2023). 'Social Preferences: Fundamental Characteristics and Economic Consequences'. CESifo Working Paper No. 10488.
- 3.** O'Donoghue, T., & Sprenger, C. (2018). 'Reference-dependent Preferences'. In *Handbook of Behavioral Economics-Foundations and Applications* (Vol. 1, pp. 1-77).
4. Brun, M., & Ramos, X. (Forthcoming). 'Attitudes to Income Inequality and Redistribution'. In *Oxford Handbook of Income Distribution and Economic Growth*.
5. Cappelen, A. W., Falch, R., & Tungodden, B. (2020). 'Fair and Unfair Income Inequality'. In *Handbook of Labor, Human Resources and Population Economics* (Vol. 1, pp. 1-25).
6. Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*.
7. Fehr, E., & Gächter, S. (2000). 'Fairness and Retaliation: The Economics of Reciprocity'. *Journal of Economic Perspectives*, 14(3): 159-182.

Non-standard Beliefs

- 1.** Bénabou, R., & Tirole, J. (2016). ‘Mindful Economics: The Production, Consumption, and Value of beliefs’. *Journal of Economic Perspectives*, 30(3): 141-164.
- 2.** Malmendier, U., & Taylor, T. (2015). ‘On the Verges of Overconfidence’. *Journal of Economic Perspectives*, 29(4): 3-8.
- 3.** Amelio, A., & Zimmermann, F. (2023). ‘Motivated Memory in Economics—A Review’. *Games*, 14(1): 15.
4. Zimmermann, F. (2020). ‘The Dynamics of Motivated Beliefs’. *American Economic Review*, 110(2): 337-363.
5. Benjamin, D. J. (2019). ‘Errors in Probabilistic Reasoning and Judgment Biases’. In *Handbook of Behavioral Economics-Foundations and Applications* (Vol. 2, pp. 69-186).

Non-standard Decision-Making

- 1.** Enke, B. (2024). ‘The Cognitive Turn in Behavioral Economics’. Working Paper.
- 2.** Gabaix, X. (2019). ‘Behavioral Inattention’. In *Handbook of Behavioral Economics-Foundations and Applications* (Vol. 2, pp. 261-343).
- 3.* Rabin, M. (2013). ‘Incorporating Limited Rationality into Economics’. *Journal of Economic Literature*, 51(2): 528-543.
4. Enke, B., Graeber, T., Oprea, R., Yang, J. (2024). ‘Behavioral Attenuation’. NBER Working Paper No. 32973.
5. Enke, B., Graeber, T. (2023). ‘Cognitive Uncertainty’. *Quarterly Journal of Economics*, 138(4): 2021–2067.
6. Gabaix, X., & Graeber, T. (2024). ‘The Complexity of Economic Decisions’. NBER Working Paper No. 33109.
7. Maćkowiak, B., Matějka, F., & Wiederholt, M. (2023). ‘Rational Inattention: A Review’. *Journal of Economic Literature*, 61(1): 226-273.
8. Oprea, R. (2020). ‘What makes a rule complex?’. *American Economic Review*, 110(12): 3913-3951.

Applications

- 1.** Dohmen, T. (2014). ‘Behavioral Labor Economics: Advances and Future Directions’. *Labour Economics*, 30: 71-85.
- 2.** Bernheim, B. D., & Taubinsky, D. (2018). ‘Behavioral Public Economics’. In *Handbook of Behavioral Economics-Foundations and Applications* (Vol. 1, pp. 381-516).
- 3.** Kremer, M., Rao, G., & Schilbach, F. (2019). ‘Behavioral Development Economics’. In *Handbook of Behavioral Economics-Foundations and Applications* (Vol. 2, pp. 345-458).
- 4.** Schnellenbach, J., & Schubert, C. (2015). ‘Behavioral Political Economy: A survey’. *Euro-*

pean Journal of Political Economy, 40: 395-417.

5. Chetty, R. (2015). 'Behavioral Economics and Public Policy: A pragmatic perspective'. *American Economic Review*, 105(5): 1-33.