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Syllabus for ECON 277 Behavioral Economic Theory

Course Description The course introduces behavioral economic theory. The first half of the course covers loss aversion, quasi-hyperbolic preferences, social preferences, and errors in probabilistic reasoning. The second half treats behavioral game theory.

Assessment Your grade will be

$$70\%\text{Final-Exam Grade} + 30\%\text{Homework Grade}$$

Requirements There will be three homeworks given out in weeks 2,5,8 of term and due one week later. Solving these problems will often be challenging and time-consuming but is essential to do well in the course.

You are strongly discouraged from missing lecture: students who do not engage with lecture do not do well in the course. The use of mobile phones is not permitted during lecture.

Office Hours One hour per week will be specifically set aside as an 277 office hour. When you arrive, please join any of your classmates already in my office. Not only can your classmates often answer questions better than me, but it is inefficient for me to answer the same question repeatedly, especially when that prevents students from asking new questions. This office hour is the best place to discuss course material and is *provisionally* timetabled for Wednesday 14.30-15.30 (but subject to change if many of you cannot make it then) in my office 3052 North Hall.

Textbook The lecture notes contain all the required material for the course. Readings will be indicated as we go. For the first topic, they are

1. Rabin, Matthew (2000). "Risk Aversion and Expected-Utility Theory: A Calibration Theorem", Econometrica 68(5).

2. Rabin, Matthew and Richard Thaler (2001). “Anomalies: Risk Aversion”, Journal of Economic Perspectives 15(1).
3. Kahneman and Tversky (1979). “Prospect Theory: An Analysis of Decision under Risk.” Econometrica, 47(2)
4. O’Donoghue and Sprenger (2018). “Reference-Dependent Preferences” Chapter 1 in Handbook of Behavioral Economics, Volume 1, edited by Bernheim, DellaVigna and Laibson, Elsevier
5. Koszegi, Botond and Matthew Rabin (2007). “Reference-Dependent Risk Attitudes”, American Economic Review 97(4).
6. Sydnor, Justin (2010). “(Over)insuring Modest Risks”, American Economic Journal: Applied Economics 2(4).

Course Material Slides of the lecture notes generally will be posted on the course website on Gaucho Space by Sunday before the Tuesday lecture.

Topics

1. Risk Aversion and Loss Aversion
2. Utility from Beliefs
3. Beta-Delta Discounting and Projection Bias
4. Social Preferences
5. Sampling Biases

6. Behavioral Game Theory

   (a) Level k

   (b) Cognitive-Hierarchy Model

   (c) Cursed Equilibrium

   (d) Analogy-Based-Expectations Equilibrium

   (e) Behavioral Equilibrium

   (f) Quantal-Response Equilibrium