# Econ 328: Introduction to Behavioral Economics

## Prof. Vipul Bhatt

### Fall 2021

**Office:** Showker 6014  
**Class Room:** Showker 2121  
**Class Hours:** Tu/Th 11:20AM-12:35PM

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**Office Hours**  
In-person: Tu/Th 9:40-11:10AM  
Zoom: Wed 9:30AM-12:30PM

## Course Description and Objectives

This is an introductory course in behavioral economics that combines economics with psychology. An important goal of this course is to illustrate how incorporating psychologically realistic assumptions grounded in observed behavior improves the explanatory power of various economic models. During the course of this semester we will focus on decision-making under uncertainty, intertemporal choice, and other-regarding preferences. In each case, we will begin with the standard economic model and examine empirical evidence for its main predictions. This will be followed by identifying key assumptions of the standard economic model and how they can be modified/replaced with more realistic assumptions based on experimental evidence on individual behavior. We will learn how various models in behavioral economics incorporate these assumptions and study their implications for economic behavior and policy analysis. We will conclude the semester by applying insights from behavioral economics to the issues of savings for retirement and climate change.

An important objective of this course is to encourage critical thinking and hone your communication skills, oral as well as written. Consequently a large part of your grades will be determined by a group project requiring you to present a published journal article in class. Problem sets and two exams will test your ability to summarize and critically discuss material presented in the class. More details on various elements of assessment are provided later in the syllabus.

# Tentative Course Outline

I will try my best to follow the schedule outlined below. However, in all likelihood this schedule will change depending on how the class reacts to each topic.

| Content and Readings |
| --- |
| Topic 1: Introduction<br>• Three domains of decision-making<br>• What is "standard" about the standard economic model?<br>• Economics and Psychology<br>• Beliefs and Biases |
| Topic 2: Decision-making under uncertainty<br>• Uncertainty vs Risk<br>• Expected Utility Theory<br>• Prospect Theory |
| Topic 3: Intertemporal Choice<br>• Time Preference<br>• Discounted Utility Model<br>• Present bias and hyperbolic discounting |
| Topic 4: Other-regarding Preferences<br>• Social preferences<br>• Inequity aversion<br>• Fairness and Reciprocity |
| Topic 5: Behavioral public policy<br>• Choices as a basis for evaluating policy<br>• Paternalism vs Nudges<br>• Some applications |

# Readings

1. **Lecture Slides:** I have compiled these notes myself from various sources and these notes will not follow any particular textbook.

2. **Required Readings:** A complete list of required readings by topic is provided below. Most of these articles are available from the JMU library resources such as JSTOR. A few of them that are not in the public domain are made available on Canvas. In addition I may also post relevant news articles on Canvas during the course of the semester.

- **Topic 1 readings:**

  1. Erik Angner, "We're all behavioral economists now," Journal of Economic Methodology. 2019, VOL. 26, NO. 3, 195–207.

  2. Mathew Rabin, "A Perspective on Psychology and Economics," European Economic Review, 2002, 46 (4-5), 657–685.

  3. Daniel Kahneman, "Maps of Bounded Rationality: Psychology for Behavioral Economics," The American Economic Review , Dec., 2003, Vol. 93, No. 5, pp. 1449- 1475.

  4. Max Bazerman and Don Moore, Judgment in Managerial Decision Making, 2012, Ch 2.

- **Topic 2 readings:**

  1. Rabin, Matthew, and Richard H. Thaler, "Anomalies: Risk Aversion." Journal of Economic Perspectives, 15 (1), 2001, pp. 219-232.

  2. Nicholas C. Barberis, "Thirty Years of Prospect Theory in Economics: A Review and Assessment," Journal of Economic Perspectives—Volume 27, Number 1—Winter 2013—Pages 173–196.

  3. Pope, Devin G., and Maurice E. Schweitzer. "Is Tiger Woods Loss Averse? Persistent Bias in the Face of Experience, Competition, and High Stakes." The American Economic Review, vol. 101, no. 1, 2011, pp. 129–157.

- **Topic 3 readings:**

  1. Chabris C, Laibson D, Schuldt J. "Intertemporal Choice". Palgrave Dictionary of Economics 2008.

  2. Angeletos, George-Marios, David Laibson, Andrea Repetto, Jeremy Tobacman, and Stephen Weinberg. "The Hyperbolic Consumption Model: Calibration, Simulation, and Empirical Evaluation." Journal of Economic Perspectives, 15 (3), 2001, pp. 47-68

  3. Acland, Dan, and Matthew R. Levy. "Naiveté, Projection Bias, and Habit Formation in Gym Attendance." Management Science, vol. 61, no. 1, 2015, pp. 146–160.

- **Topic 4 readings:**

  1. Kahneman, Daniel, Jack Knetsch, and Richard H. Thaler, "Fairness and the Assumptions of Economics," Journal of Business, October 1986, 59, S285–300.

  2. Camerer, Colin F., and Richard H. Thaler. "Anomalies: Ultimatums, Dictators and Manners." Journal of Economic Perspectives, 9 (2), 1995, pp. 209-219.

- **Topic 5 readings:**

1. Thaler, Richard, H., and Cass R. Sunstein. 2003. "Libertarian Paternalism ." American Economic Review, 93 (2): 175-179.

2. Madrian, Brigitte C. "Applying Insights from Behavioral Economics to Policy Design," Annual review of economics vol. 6, 2014, pp. 663-688.

3. Raj Chetty, John N. Friedman, Søren Leth-Petersen, Torben Heien Nielsen, Tore Olsen, "Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark", The Quarterly Journal of Economics, Volume 129, Issue 3, August 2014, Pages 1141–121.

4. Ebeling, F., Lotz, S. Domestic uptake of green energy promoted by opt-out tariffs. Nature Clim. Change 5, 868–871 (2015).

3. **Recommended Readings:**

3.1. Thinking, fast and slow by Daniel Kahneman. You can order from here:

https://www.amazon.com/Thinking-Fast-Slow-Daniel-Kahneman/dp/0374533555/ref=sr_1_3?crid=2KTPKCQX2EYYI&keywords=thinking%2C+fast+and+slow&qid=1578080409&sprefix=thinking%2C+f%2Caps%2C146&sr=8-3

3.2. Predictably Irrational: The Hidden Forces that Shape Our Decisions: by Dan Ariely. You can order it from here:

https://www.amazon.com/Predictably-Irrational-Revised-Expanded-Decisions/dp/0061353248/ref=tmm_pap_swatch_0?_encoding=UTF8&qid=&sr=

# Exam Schedule

|  | Date | Time | Location |
| --- | --- | --- | --- |
| Midterm | October 19th 2021 | 11:20AM-12:35PM | Showker 2121 |
| Final | December 14th 2021 | 10:30AM - 12:30PM | Showker 2121 |

# Course Policy

Below I summarize important policies related to this course. Read them carefully and let me know in case you have a clarifying questions.

## Grading Structure

| | |
| --- | --- |
| Participation and Attendance | 40 points |
| Group presentation | 50 points |
| Problem Sets | 100 points |
| Midterm Exam | 150 points |
| Final Exam | 200 points |
| Total | 540 points |

*Details on Grading Items*

- **Participation & Attendance:** There are two main ways you will be earning these points:

  1. Regular attendance and in-class participation. This includes asking questions, responding to questions posed to the class. This will count for 20 points and assigned on the scale given below. Note, *frequent* contributors pose questions independently and are prepared to answer questions when called upon. *Well-prepared* contributors rarely pose questions, but are well prepared when called upon. *Infrequent* contributors might participate only rarely, or seem ill-prepared when called upon. *Almost never* implies you were rarely prepared, and almost never had anything to independent to contribute, or you were disruptive. NOTE: attendance does NOT constitute participation, and courteousness to your classmates is also considered in your grade.

     |          | Participation | | | |
     |----------|---------------|---------------|-------------|--------------|
     | Absences | Frequently | Well-prepared | Infrequently | Almost Never |
     | 0 | 20 | 18 | 16 | 14 |
     | 1 | 18 | 16 | 14 | 12 |
     | 2 | 16 | 14 | 12 | 10 |
     | 3 | 14 | 12 | 10 | 8 |
     | 4 | 12 | 10 | 8 | 6 |
     | 5 | 0 | 0 | 0 | 0 |

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  2. Canvas discussion board: During the semester you will be given multiple opportunities to comment on various topics covered in class and your participation in these would count for 20 points toward your final grade.

- **Problem Sets:** During the semester you will get several problem sets based on the material covered in class and the required readings included in the syllabus. The goal is to provide practice problems for the material covered in class. I will be posting these problem sets on Canvas regularly and you will get sufficient time to complete them. You will be uploading your assignments as a single pdf file on Canvas. The exact number of problem sets will depend on how the semester progresses but the total contribution 100 points toward your final grade.

- **Group Presentations:** There will be one group presentation based on a research paper on one of the topics covered in class. This is a group assignment and you will be required to form a group by the end of second week of classes. Each group should have 3-4 students max. Once you have form the group you will notify me via email. After that you will be randomly assigned a research paper. You will make a 15 minute oral presentation on the assigned paper. More details will be posted on Canvas in a timely fashion. At present I am reserving the last two lectures of the semester for group presentations.

- **Midterm Exam:** There will be one (closed book) midterm exam worth 150 points. Refer to the make-up exam policy below.\

- **Final Exam:** The in-class comprehensive final examination (closed book) will count towards the remaining 200 points. Refer to the make-up exam policy below.

## Make-up Policy

- There will be no make-up for missed problem sets. No exceptions.

- No make-up for missed group presentations. You simply have to be there for these discussions or lose points.

- If you are not able to take the exam during the assigned time, it is your responsibility to contact me AT LEAST a week in advance to discuss the appropriate solution. This rule applies to both the midterm exams as well as the final.

- There will be no make-up for the midterm exam. In the most extreme of circumstances I may decide to make an exception and shift the weight of the missed midterm to the final exam. For example, if you miss the midterm then the final will count for 350 points of the final grade. However, this will depend solely upon my discretion and you would need to provide the appropriate and valid documentation to support your situation. If a student misses the exam and does not furnish an acceptable official document, or if the student's excuse is not valid according to me regardless of the documentation, the student will receive a grade of 0 for the midterm exam.

- For the Final exam, a make-up will be given if an acceptable official document such as a medical statement from a doctor is supplied as soon as possible. I will not accept any document after one week has passed from the date of the exam except under extreme circumstances. If a student misses the exam and does not furnish an acceptable official document, or if the student's excuse is not valid according to me regardless of the documentation, the student will receive a grade of 0 for the final exam and hence will fail this class.

## Use of Canvas

Materials pertaining to the course such as important announcements, lecture slides etc will be posted on Canvas. It is your responsibility to keep a track of such announcements and postings on Canvas at\

https://canvas.jmu.edu/

You should check Canvas at least twice per week to stay abreast of the course.

## Withdrawing from the Class

- In case you wish to withdraw from the class please follow the University guidelines and make sure to meet the corresponding deadlines. These are available at:

  http://www.jmu.edu/syllabus//#AddingDropping

- If you miss the deadline for withdrawing with a grade of W then your grade will is based on your class performance. I DO NOT, in any circumstance give WP or WF, and I will not entertain any such requests.

### Preferred method for contacting me

The best way to reach me is via email. I will do my best to respond to e-mail within 24 hours on a weekday, 48 hours on a weekend, according to the following policy:

- I will not reply to e-mails that request information that can be found on the syllabus and/or Canvas.
- Make your queries brief. I will only respond to questions that can be answered in a sentence or two. For detailed questions, please see me during office hours.

# Inclement Weather Policy

Classes will be held unless canceled by the JMU administration for reasons of bad weather, bomb threats, or fire alarms.

# JMU Honor Code Policy

All students are expected to be aware of and adhere to the JMU Honor Code. Students will be expected to be academically honest and properly credit all source materials used. For the official documentation on the honor code policy see:\

http://www.jmu.edu/syllabus//#Honesty

# Other University policies

To read about JMU's policy egarding Adding/Dropping Courses Disability Accommodations, and Religious Observation Accommodations, please see:

http://www.jmu.edu/syllabus