

**Behavioral Economics**

MA Economics

Prof. Dr. Holger Herz, Université de Fribourg

holger.herz@unifr.ch

1 Outline

This course is held in **English language** and will take place every **Wednesday from 12:15 to 16:00**, starting at the **26th of September**. There will be exercise sessions in addition to the lectures and the course will be completed by a final exam at the end of the semester (90min) that yields **4.5 ECTS**.

This course is valid for

- Master in Economics; Module 7: Economic Theory
- Master in Economics; Module 8: Industrial Organization
- Master in Economics; Offer Master list
- Benefri

2 Content

This course covers topics in Behavioral Economics, which aims at integrating insights from psychology into economic thinking. Behavioral economics departs from “mainstream economic theory” by weakening its strong assumptions, such as perfect rationality or pure self-interest. First, we will challenge classical assumptions on preferences and replace them with behavioral alternatives. Thus, we will introduce reference- dependent preferences, social preferences and time-inconsistent preferences. We will discuss papers that formalize these concepts and, hence, allow deriving formal and testable predictions that can be tested against mainstream models. Afterwards we will focus on beliefs and discuss biases that occur in the belief formation and updating process.

The goal of the course is to introduce students to some of the key applications of behavioral economics. This involves both formal modeling of behavioral assumptions and the empirical assessment and identification of behavioral biases. As a consequence, the course is suited both for students interested in theoretical and in empirical work. The grade will be given on the basis of an exam at the end of the semester (90 minutes).

3 Program (preliminary)

Date	Topic
19th of September	No Lecture
26th of September	Introduction
3rd of October	Reference-Dependent Preferences
10th of October	Reference-Dependent Preferences
17th of October	Social Preferences
24th of October	Social Preferences
31st of October	Time-Inconsistent Preferences
7th of November	Time-Inconsistent Preferences
14th of November	Non-Standard Beliefs
21st of November	Non-Standard Beliefs, Motivated Beliefs
28th of November	Motivated Beliefs
5th of December	Saliency
12th of December	no lecture (tentative)
19th of December	no lecture (tentative)

4 Reading List

All papers will be provided on Moodle.

4.1 General

- DellaVigna (2009)
- Thaler (2016)
- Thaler (2018)
- Rabin (1998)

4.2 Reference-Dependent Preferences

- *Prospect Theory*: Kahneman and Tversky (1979), Kőszegi and Rabin (2006)
- *Field Evidence*: Camerer, Babcock, Loewenstein, and Thaler (1997), Farber (2008)
- *Experimental Evidence*: Fehr and Goette (2007), Abeler, Falk, Goette, and Huffman (2011)

4.3 Social Preferences

- *Theory and Experiments*: Fehr and Schmidt (1999), Charness and Rabin (2002)
- *Reciprocity in Labor Markets*: Fehr, Kirchsteiger, and Riedl (1993), Kube, Maréchal, and Puppe (2012)
- *Control*: Falk and Kosfeld (2006)
- *Social esteem*: Ellingsen and Johannesson (2008)

4.4 Time-Inconsistent Preferences

- *Basic Theory and Evidence*: O'Donoghue and Rabin (1999), DellaVigna and Malmendier (2006)
- *Application to Self-Control at Work*: Kaur, Kremer, and Mullainathan (2015)
- *Commitment Devices*: Ashraf, Karlan, and Yin (2006), Augenblick, Niederle, and Sprenger (2015)

4.5 Non-standard Beliefs

- *Law of Small Numbers*: Rabin (2002)
- *Hot Hand Fallacy*: Miller and Sanjurjo (2014)

4.6 Motivated Beliefs

- Bénabou and Tirole (2016)

4.7 Salience

- Bordalo, Gennaioli, and Shleifer (2013)

5 Teaching assistance

Elisa Matthews
Chair of Industrial Economics, University of Fribourg
Boulevard de Pérolles 90, Pérolles 21, Office G412, 1700 Fribourg
Phone: +41(0)26 300 82 84
Email: elisa.matthewes@unifr.ch

References

- Abeler, J., Falk, A., Goette, L., & Huffman, D. (2011). Reference points and effort provision. *American Economic Review*, 101(2), 470-92.
- Ashraf, N., Karlan, D., & Yin, W. (2006). Tying odysseus to the mast: Evidence from a commitment savings product in the philippines. *Quarterly Journal of Economics*, 121(2), 635-672.
- Augenblick, N., Niederle, M., & Sprenger, C. (2015). Working over time: Dynamic inconsistency in real effort tasks. *The Quarterly Journal of Economics*, 130(3), 1067-1115.
- Bénabou, R., & Tirole, J. (2016). Mindful economics: The production, consumption, and value of beliefs. *Journal of Economic Perspectives*, 30(3), 141-164.
- Bordalo, P., Gennaioli, N., & Shleifer, A. (2013). Saliency and consumer choice. *Journal of Political Economy*, 121(5), 803-843.
- Camerer, C., Babcock, L., Loewenstein, G., & Thaler, R. (1997). Labor supply of new york city cabdrivers: One day at a time. *The Quarterly Journal of Economics*, 112(2), 407-441.
- Charness, G., & Rabin, M. (2002). Understanding social preferences with simple tests. *The Quarterly Journal of Economics*, 117(3), 817-869.
- DellaVigna, S. (2009). Psychology and economics: Evidence from the field. *Journal of Economic Literature*, 47(2), 315-372.
- DellaVigna, S., & Malmendier, U. (2006). Paying not to go to the gym. *American Economic Review*, 96(3), 694-719.
- Ellingsen, T., & Johannesson, M. (2008). Pride and prejudice: The human side of incentive theory. *American Economic Review*, 98(3), 990-1008.
- Falk, A., & Kosfeld, M. (2006). The hidden costs of control. *American Economic Review*, 96(5), 1611-1630.
- Farber, H. S. (2008). Reference-dependent preferences and labor supply: The case of new york city taxi drivers. *The American Economic Review*, 98(3), 1069-1082.
- Fehr, E., & Goette, L. (2007). Do workers work more if wages are high? evidence from a randomized field experiment. *The American Economic Review*, 97(1), 298-317.
- Fehr, E., Kirchsteiger, G., & Riedl, A. (1993). Does fairness prevent market clearing? an experimental investigation. *The Quarterly Journal of Economics*, 108(2), 437-459.
- Fehr, E., & Schmidt, K. (1999). A theory of fairness, competition and cooperation. *The Quarterly Journal of Economics*, 114(3), 817-868.
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica: Journal of the Econometric Society*, 47(2), 263-292.
- Kaur, S., Kremer, M., & Mullainathan, S. (2015). Self-control at work. *Journal of Political Economy*, 123(6), 1227-1277.
- Kőszegi, B., & Rabin, M. (2006). A model of reference-dependent preferences. *Quarterly Journal of Economics*, 121(4), 1133-1165.
- Kube, S., Maréchal, M. A., & Puppe, C. (2012). The currency of reciprocity: Gift exchange in the workplace. *American Economic Review*, 102(4), 1644-1662.
- Miller, J. B., & Sanjurjo, A. (2014). *A cold shower for the hot hand fallacy*. (IGIER Working Paper No. 518. Available at SSRN: <https://ssrn.com/abstract=2450479>)
- O'Donoghue, T., & Rabin, M. (1999). Doing it now or later. *American Economic Review*, 89(1), 103-124.
- Rabin, M. (1998). Psychology and economics. *Journal of Economic Literature*, 36(1), 11-46.
- Rabin, M. (2002). Inference by believers in the law of small numbers. *Quarterly Journal of Economics*, 117(3), 775-816.
- Thaler, R. (2016). Behavioral economics: Past, present, and future. *American Economic Review*, 106(7), 1577-1600.
- Thaler, R. (2018). From cashews to nudges: The evolution of behavioral economics. *American Economic Review*, 108(6), 1265-1287.