Behavioral Economics, Winter Term 2017/2018

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Lecture: Wednesday, 11:45 - 13:15
Tutorial: Monday, 13:30 - 15:00 biweekly

Neoclassical economic models rest on the assumptions of rationality and selfishness. Behavioral economics investigates departures from these assumptions and develops alternative models. In this lecture, we will discuss in particular inconsistencies in intertemporal decisions, the role of reference points, and non-selfish behavior. We will analyze models that aim in a better description of actual human behavior. In the tutorial, we will analyze the models in more detail and develop applications.

Content

	0. Introduction
Intertemporal choice	1. Introduction the present bias 2. Doing it now or later 3. Consumption optimization
Risk	4. Risk perception and risk preferences
Reference points	5. Evidence for reference points 6. Köszegi und Rabin (2006) - Theory 7. Köszegi und Rabin (2006) - Applications
Non-selfish preferences	8. Evidence of social preferences 9. Inequality aversion 10. Reciprocity 11. On the evolution of cooperation 12. Guilt and deception
Incentives	13. Intrinsic motivation
Final lecture	Questions and Answers

Main literature

You find an entertaining introduction in behavioral economics in George A. Akerlof and Robert J. Shiller, 2009, "Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism", Princeton University Press, Princeton.

We will focus on theoretical papers. The main papers are, in order of appearance:
O'Donoghue, Ted and Matthew Rabin, 1999, "Doing it Now or Later," American Economic Review, 89(1), 103-24.
David Laibson, Andrea Repetto and Jeremy Tobacman (2003) "A Debt Puzzle" in eds. Philippe Aghion,

Roman Frydman, Joseph Stiglitz, Michael Woodford, Knowledge, Information, and
Expectations in Modern Economics: In Honor of Edmund S. Phelps, Princeton: Princeton
University Press, 228-266.
http://www.economics.harvard.edu/faculty/laibson/files/sept17.pdf
Köszegi, Botond and Rabin, Matthew. "A Model of Reference-Dependent Preferences." Quarterly
Journal of Economics, 2006, 121(4), pp. 1133.
Kahneman, D. and Tversky, A. "Prospect Theory - Analysis of Decision under Risk." Econometrica,
1979, 47(2), pp. 263-91.
Rabin, Matthew. "Risk Aversion and Expected-Utility Theory: A Calibration Theorem." Econometrica,
2000, 68(5), pp. 1281-92.
Bolton, Gary E. and Ockenfels, Axel. "Erc: A Theory of Equity, Reciprocity, and Competition."
American Economic Review, 2000, 90 1, pp. 166-93.
Fehr, Ernst and Schmidt, Klaus M. "A Theory of Fairness, Competition, and Cooperation." Quarterly
Journal of Economics, 1999, 114 3, pp. 817-68.
Levine, David K. "Modeling Altruism and Spitefulness in Experiments." Review of Economic
Dynamics,
1998, 1 3, pp. 593-622.
Rabin, M. "Incorporating Fairness into Game-Theory and Economics." American Economic Review,
1993, 83(5), pp. 1281-302.
Dufwenberg, M. and Kirchsteiger, G. "A Theory of Sequential Reciprocity." Games and Economic
Behavior, 2004, 47(2), pp. 268-98.
Falk, Armin and Fischbacher, Urs. "A Theory of Reciprocity." Games and Economic Behavior, 2006,
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(2), pp. 293-315.
Charness, Gary and Rabin, Matthew. "Understanding Social Preferences with Simple Tests." Quarterly
Journal of Economics, 2002, 117 3, pp. 817-69.