

Behavioral and Experimental Economics

SPRING 2021

Time and Location: TBA

Instructor: Professor Salvatore Nunnari

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Office Hours: TBA, Room: 5-C2-05

Outline and Objectives

OVERVIEW AND GOALS

This course provides an overview of the behavioral and experimental economics literature studying decision-making and strategic interactions. One of the main goals of the course is to provide students with hands-on experience on how to design and carry out their own experiments. To this end, active experimentation using both traditional and cutting-edge research methods will constitute a significant portion of the class. The lectures will explore how psychology and economics can be integrated to give researchers in economics and finance a unique set of tools to study how people respond to risk, make choices over time, and interact with others. The last sections of the class will focus on applications in political economy and finance. Students will have an opportunity to critically discuss existing behavioral and experimental economics research as well as to present their own research ideas. Everyone will have an opportunity to both participate and run their own experiments.

FORMAT

The lectures will be centered on interactive presentations of recent and original research. Students are expected to comment and challenge the instructor. The class is organized into modules, with each module composed of two classes focused on one of the topics listed below. The first class in a module will introduce the seminal papers in the literature while the second class will be devoted to recent developments on the topic. Students will both participate in experiments and conduct their own in line with the theme of each module.

REQUIREMENTS AND GRADING

Since a major goal of the class is the development of research skills, there will be no in-class midterms or final. Presentations, participation and the take-home assignments will be used to determine grading. Students will have an opportunity to present their own ideas throughout the semester. In addition, a final paper will be due at the end of the semester.

Participation

Given the seminar format of this course, students are expected to play an active role in class discussions. Students should plan on preparing 2-3 questions on each of the required readings to be discussed. The last 10-20 minutes of each class will be devoted to active discussions of the papers. The beginning of each lecture class will start with a short 2-3 question quiz on the readings. Scores on these quizzes will count towards your participation grade in the class.

Idea Briefs

For each topic covered, students will write a short idea brief (1-2 pages) focusing on a research idea related to the topic. The idea briefs should focus on the big picture questions that the research aims to answer, with a focus on the motivation and the experimental design used to explore it. For each module, one student will be chosen to give a short (5-10 minute) presentation of his/her idea brief on the day that they are due.

Final Project

The final project is a paper (10-20 pages) on an original research topic of the student's choice. The paper should be structured as a standard scientific article, with an introduction, literature review, procedures, results, discussion and conclusion. Actual data is not required. If no data was collected, the results section should contain a detailed plan on how such data would be analyzed. Students can work together. Each student or group will make a brief presentation (20 minutes) of their final project during the last lecture of the course.

Grading

The grade will be based 40% on participation, 20% on idea briefs, and 40% on the final project.

TEXT

Unfortunately, there is no standard behavioral economics textbook. So, most of the material will come from the lecture. I will post a version of the lecture slides on Blackboard the night before each class. The slides will provide a detailed outline of the lecture, however they should not be considered exhaustive. Required and optional reading will be posted to Blackboard. The following text is encouraged:

Camerer, C. F., Loewenstein, G., and Rabin, M., *Advances in Behavioral Economics*, New York, Princeton University Press, 2004.

Etiquette and Policies

ASSIGNMENT POLICY

You must turn in all the assignments by the due date *during the first 10 minutes of class* to receive full credit. After that, you may turn an assignment until the end of the day the assignment is due, with a penalty of 25% of the total possible points. Under no circumstances you may turn any assignment later than the day it is due.

ARRIVE ON TIME

Please arrive on time at the start of class. We will often be running experiments in the class, with you as the participants. If you arrive late, you'll miss the instructions and will not be able to participate.

NO SCREENS POLICY

Active attention and participation are really important for an interactive course such as behavioral and experimental economics. For that reason, during class do not use laptops, tablets, cell phones, or whatever new screen gets invented to distract you from the people around you. If you require any accommodations for this course, please see me. I am committed to ensuring the full participation of all students.

ATTENDANCE

You are expected to attend all of the classes. In order to run classroom experiments, I need to know the number of students who are going to be in the class. If you have a legitimate conflict, please let me know ahead of time.

Course Outline

Required readings are in **bold**. Readings not in bold are meant to supplement the lectures.

Lecture 1 – Introduction

Assignments Due: None

Behavioral and Experimental Economics

- Loewenstein, G. (1999). Experimental Economics from the Vantage-Point of Behavioral Economics. *Economic Journal*, 109, 25-34.

Methods of Behavioral Economics

- Hertwig, R. and Ortmann, A. (2001). Experimental Practices in Economics: A Methodological Challenge for Psychologists? *The Behavioral and Brain Sciences*, 24, 383-403.

Lecture 2 – Uncertainty Preferences: Foundations

Assignments Due: Required Readings

Expected Utility and Prospect Theory

- **Kahneman, D. and Tversky, A. (1979). Prospect Theory: An Analysis of Decision Under Risk. *Econometrica*, 47, 263-292.**

Endowment Effect

- **Kahneman, D., Knetsch, J. and Thaler, R. (1991). Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias. *Journal of Economic Perspectives*, 5, 193-206.**

Mental Accounting

- Thaler, R. (1999). Mental Accounting Matters. *Journal of Behavioral Decision Making*, 12, 183-206.

History-Dependent Risk Preferences

- Thaler, R. and Johnson, E. (1990). Gambling with the House Money and Trying to Break Even: The Effects of Prior Outcomes on Risky Choice. *Management Science*, 36, 643-660.

Ambiguity Aversion

- Ellsberg, D. (1961). Risk, Ambiguity, and the Savage Axioms. *Quarterly Journal of Economics*

Lecture 3 – Uncertainty Preferences: Advances

Assignments Due: Required Readings, Idea Briefs

- **Barberis, N. (2013). Thirty Years of Prospect Theory: A Review and Assessment. *Journal of Economic Perspectives*, 27, 173-196.**
- Abeler, A. and Marklein, F. (2016) Fungibility, Labels and Consumption. *Journal of the European Economic Association*, 15, 99-127.

Lecture 4 – Time Preferences: Foundations

Assignments Due: Required Readings

- **Loewenstein, G. and Thaler, R. (1989). Anomalies: Intertemporal Choice. *Journal of Economic Perspectives*, 3, 181-193.**
- Ariely, D. and Wertenbroch, K. (2002) Procrastination, Deadlines, and Performance: Self-Control by Precommitment, *Psychological Science*, Vol. 13, 219-224.

Lecture 5 – Time Preferences: Advances

Assignments Due: Required Readings, Idea Briefs

- **Read, D., Frederick, S., Orsel, B. and Rahman, J. (2005). Four Score and Seven Years from Now: The Date/Delay Effect in Temporal Discounting. *Management Science*, 51, 1326-1335.**
- Imas, A., Kuhn, M. and Mironova, V. Waiting to Choose, mimeo.

Lecture 6 – Social Preferences: Foundations

Assignments Due: Required Readings

Social Preferences (Global)

- **Loewenstein, G., Thompson, L. and Bazerman, M. (1989). Social Utility and Decision Making in Interpersonal Contexts. *Journal of Personality and Social Psychology*, 57, 426-441.**

Reciprocity and Fairness

- **Camerer, C. and Thaler, R. (1995). Anomalies: Ultimatums, Dictators and Manners. Journal of Economic Perspectives, 9, 209-219.**
- Dawes, R. M. and Thaler, R. (1988). Anomalies: Cooperation. Journal of Economic Perspectives, 2, 187-197.

Lecture 7 – Social Preferences: Advances

Assignments Due: Required Readings, Idea Briefs

- **Exley, C. (2015). Excusing Selfishness in Charitable Giving: The Role of Risk. Review of Economic Studies, 83, 587-628.**
- Dana, J., Weber, R. A. and Kuang, J. X. (2007). Exploiting Moral Wiggle Room: Experiments Demonstrating an Illusory Preference for Fairness. Economic Theory, 33, 67-80.
- Dana, J., Cain, D. and Dawes, R. (2006). What You Dont Know Wont Hurt Me: Costly (but Quiet) Exit in Dictator Games. Organizational Behavior and Human Decision Processes, 100, 193-201.

Lecture 8 – Strategic Interactions and Markets: Foundations

Assignments Due: Required Readings

Markets

- **Smith, V. L. (1962). An Experimental Study of Competitive Market Behavior. Journal of Political Economy, 70, 111-137.**
- Kahneman, D., Knetsch, J. and Thaler, R. (1986). Fairness as a Constraint on Profit Seeking: Entitlements in the Market. American Economic Review, 76, 728-741.

Experimental Game Theory

- **McKelvey, R. and Palfrey, T. (1992). An Experimental Study of the Centipede Game. Econometrica, 60, 803-836.**

Behavioral Game Theory

- **Nagel, R. (1995). Unraveling in Guessing Games: An Experimental Study. American Economic Review, 85, 1313-1326.**

Lecture 9 – Strategic Interactions and Markets: Advances

Assignments Due: Required Readings, Idea Briefs

- **Falk, A. and Szech, N. (2013). Morals and Markets. Science, 340, 707-711.**
- Dufwenberg, M., Lindqvist, T. and Moore, E. (2005). Bubbles and Experience: An Experiment. American Economic Review, 95, 1731-1737.

Lecture 10 – Behavioral Political Economy

Assignments Due: Required Readings

Loss Aversion

- Alesina, A., and Passarelli, F. (2015). Loss Aversion in Politics. NBER Paper No 21077.

Time Inconsistency

- **Bisin, M., Lizzeri, A. and Yariv L. (2015). Government Policy with Time Inconsistent Voters. American Economic Review, 105(6): 1711-1737.**

Learning and Persuasion

- Ortoleva, P., and Snowberg E. (2015). Overconfidence in Political Behavior. American Economic Review, 105(2): 504-535
- Hill, S. J. (2017). Learning Together Slowly: Bayesian Learning about Political Facts. Journal of Politics, 79(4): 1403-1418.
- **Barrera, O., Guriev S., Henry E., and Zhuravskaya E. (2020). Facts, Alternative Facts, and Fact Checking in Times of Post-Truth Politics. Journal of Public Economics, 182(1): 104-123**

Behavioral Game Theory

- Goeree, J. K., and Holt, C. A. (2005). An Explanation of Anomalous Behavior in Models of Political Participation. American Political Science Review, 99(2): 201-213.

Lecture 11 - Behavioral Finance and Emotions

Assignments Due: Required Readings

Myopic Loss Aversion

- **Gneezy, U. and Potters, J. (1997). An Experiment on Risk Taking and Evaluation Periods. Quarterly Journal of Economics, 112, 631-645.**

Disposition Effect

- Shefrin, H. and Statman, M. (1985). The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence. Journal of Finance, 40, 777-790.

Risk and Affect

- **Shiv, B., Loewenstein, G., Bechara, A., Demasio, H. and Demasio, A. (2005). Investment Behavior and the Negative Side of Emotion. Psychological Science, 16, 435-439.**

Emotions and Empathy Gaps

- Loewenstein, G. (1996). Out of Control: Visceral Influences on Behavior. Organizational Behavior and Human Decision Processes, 65, 272-292.

Lecture 12

Final Presentations