

## **Behavioral Economics** - University of Alicante - Spring 2011

Luis Ubeda <ubeda@ua.es>

### **Reading List**

Behavioral economics incorporates psychological evidence into economics models. This reading list includes topics in risk aversion and prospect theory; bounded rationality; neuroeconomics; self control; manipulation of beliefs; altruism; learning; contracts and organizations; and applications to various fields in economics and finance..

The amount of time devoted to each topic and the order of topics are flexible and may be adjusted in response to student interest. If time does not permit, some topics from the reading list may not be covered. There are also some alternative perspectives that are not included in this list, that could be covered if there is sufficient interest.

Students are strongly encouraged to read ahead the material to be covered in each lecture and to actively participate in class with questions and comments. As part of the course work, each student must present in class a paper not covered by me. The paper is chosen by the student under my approval. In addition, each student must write a research paper related to the course subject.

### **I. Behavioral economics**

C. F. Camerer, G. Lowenstein, and M. Rabin, editors, (2004) *Advances in Behavioral Economics*. Russell Sage Foundation, Princeton University Press, Ch 1

C. F. Camerer (2003) *Behavioral game theory*, Russell Sage Foundation, Princeton University Press.

Della Vigna, Stefano (2009) "Psychology and economics: evidence from the field," *Journal of Economic Literature*, 47 315-72

Diamond, Peter and Hannu Vartiainen. 2007. *Behavioral Economics and Its Applications*, Princeton University Press

#### **1. Risk aversion, reference-dependent preferences, and prospect theory**

Kahneman, D. and A. Tversky (1979) "Prospect theory: An analysis of decision under risk," *Econometrica*, 17(2) 263-91.

Tversky A. and Kahneman, D. "Advances in prospect theory: Cumulative representation of uncertainty," Ch 3 in D. Kahneman and A. Tversky, editors, *Choices, Values, and Frames*, New York: Cambridge University Press, 2000

Prelec, D. (1998) "The probability weighting function," *Econometrica*.

Koszegi, Botond; Rabin, Matthew (2007) "Reference-Dependent Risk Attitudes," *American Economic Review*. Vol. 97 (4). p 1047-73.

Dillenberger, David. (2010) "Preferences for one-shot resolution of uncertainty and Allais-type behavior," *Econometrica* 1973-2004

List, John A. (2004) "Neoclassical theory versus prospect theory: Evidence from the marketplace,"

Econometrica

Engelmann, Dirk and Guillaume Hollard. (2010) "Reconsidering the effect of market experience on the endowment effect," *Econometrica* 2005-2019

Rabin, M. (2000) "Risk Aversion and Expected-Utility Theory: A Calibration Theorem," *Econometrica* 68(5), 1281-1292, September.

Zvi Safra, Uzi Segal (2008) "Calibration Results for Non-Expected Utility Theories," *Econometrica* 1143-66.

Epstein, Larry G. (2010) "A paradox for the Smooth-ambiguity model of preference," *Econometrica* 2085-99

## **2. Bounded rationality**

Apestequia, Jose and Ignacio Palacio-Huerta. (2010) "Psychological pressure in competitive environments: evidence from a randomized natural experiment," *AER* 2548-64

Conlisk, John "Why bounded rationality?" *Journal of Economic Literature* June 1996 669-700.

Gabaix, X. and D. Laibson "Shrouded attributes and information suppression in competitive markets," *QJE* 2006

Gabaix, Laibson, Moloche, and Weinberg: "Costly information acquisition: Experimental analysis of a boundedly rational model," *AER* 2006

Gennaioli, Nicola and Andrei Shleifer. (2010) "What comes to mind," *QJE* 1399-1433

Guryan, Jonathan; Kearney, Melissa S. (2008) "Gambling at Lucky Stores: Empirical Evidence from State Lottery Sales," *AER*, 458-73.

Mullainathan, Sendhil "A memory-based model of bounded rationality," *QJE* 2002

Rabin, Matthew: "Inference by believers in the law of small numbers," *QJE* 2002

Rubinstein, A. "Modeling bounded rationality," MIT Press 1998

Selten, Reinhard: "What is bounded rationality," Ch 2 in Gigerenzer, G. and R. Selten (ed.): *Bounded Rationality: The Adaptive Toolbox*. MIT Press 2001.

Wilson, Andrea "Bounded memory and biases in information processing," Princeton University

### **2.1 Neuroeconomics**

*Brocas, Isabelle; Carrillo, Juan D. (2008) "The Brain as a Hierarchical Organization," AER 1312-46*

Camerer, Lowenstein, and Prelec (2005) "Neuroeconomics: How neuroscience can inform economics," *Journal of Economic Literature*, 9-64.

Caplin, Andrew, Mark Dean, Paul W. Glimcher, and Robb B. Rutledge. (2010) "Measuring beliefs and rewards: a neuroeconomic approach," *QJE* 923-60

### 3. Self-control problems and intertemporal decision making

Andersen, Harrison, Lau, and Rutstrom (2008) "Eliciting risk and time preferences," *Econometrica* 583-618

Brown, Chua, Camerer. (2009) "Learning and Visceral Temptation in Dynamic Saving Experiments," *QJE*, pp. 197-231.

Fredrick, Lowenstein, and O'Donohue "Time discounting: a critical review," *JEL*

Fudenberg, D. and D. K. Levine (2006) "A dual-self model of impulse control," *AER* 1449-76

Gul, Faruk and Wolfgang Pendorfer (2004) "Self-control and the theory of consumption," *Econometrica* 72(1) 119-58.

Halevy, Yoram (2008) "Strotz Meets Allais: Diminishing Impatience and the Certainty Effect," *AER* 1145-62.

Laibson David "Golden eggs and hyperbolic discounting," *QJE* 1997 p. 443-77.

Noor, Jawwad. (2011) "Temptation and revealed preference," *Econometrica*

O'Donoghue and Rabin, "Doing it now or later," *AER* 89(1) March 1999, p.103-24.

### 4. Overconfidence and manipulation of beliefs

Bertrand, M., D. Karlan, S. Mullainathan, E. Shafir, and J. Zinman. (2010) "What's advertising content worth? Evidence from a consumer credit marketing field experiment," *QJE* 263-306

Benabou, R. and J. Tirole "Self-confidence and personal motivation," *QJE* 2002

Benabou, R. and J. Tirole. "Identity, Dignity and Taboos: Beliefs as Assets," 2006

Battaglini, M., Benabou, R. and J. Tirole "Self-control in peer groups." Princeton

Camerer and Lovallo "Overconfidence and excess entry: An experimental approach," Ch 23 in *K&T* 2000.

Caillaud, B. and J. Tirole (2007) "Consensus building: How to persuade a group," *AER* 97(5), p. 1877-1900.

Lizzeri Alessandro, Marciano Siniscalchi. (2008) "Parental Guidance and Supervised Learning," *Quarterly Journal of Economics*, 1161-1195.

Mullainathan Sendhil, Joshua Schwartzstein, Andrei Shleifer. "Coarse Thinking and Persuasion," *Quarterly Journal of Economics*, 2008

Niederle, Muriel; Vesterlund, Lise. (2007) "Do Women Shy Away from Competition? Do Men Compete Too Much?," *QJE* 122 (3). p 1067-1101

Rabin and Schrag (2000) "A simple model of confirmatory bias," *QJE*.

## **5. Decision utility and experienced utility**

Bernheim and Rangel (2009) "Beyond revealed preference: Choice-theoretic foundations for behavioral welfare economics," QJE 51-104

Kahneman, Wakker, and Sarin (1997) "Back to Bentham? Explorations of Experienced Utility," Quaterly Journal of Economics, 112(2), 375-405.

Kahneman, D. "Experienced utility and objective happiness: A moment-based approach," Ch 37 in K&T 2000.

Di Tella, R., R. MacCulloch, and A. Oswald "Preferences over inflation and unemployment: Evidence from surveys on happiness," AER 2001

Kahneman, Ritov, and Schkade "Economic preferences or attitude expressions: An analysis of dollar responses to public issues," Ch 36 in K&T 2000.

## **6. Fairness, altruism, and public goods contributions**

Ariely, Dan; Bracha, Anat; Meier, Stephan. (2009) "Doing Good or Doing Well? Image Motivation and Monetary Incentives in Behaving Prosocially," AER

Benabou, R. and J. Tirole (2006) "Incentives and prosocial behavior," AER 1652-78

Camerer (2003), Ch 2

Charness, Gary; Rigotti, Luca; Rustichini, Aldo (2007) "Individual Behavior and Group Membership," American Economic Review

Chen, Yan; Li, Sherry Xin. (2009) "Group Identity and Social Preferences," AER

Della Vigna, Stefano, John A. List, and Ulrike Malmendier. (2011) "Testing for altruism and social pressure in charitable giving," UC Berkeley

Fehr and Schmidt "A theory of fairness, competition, and cooperation," QJE 1999 p.817-68.

Fischbacher, Urs and Simon Gächter (2010) "Social preferences, beliefs, and the dynamics of free riding in public goods experiments," AER 541-56

Hargreaves Heap, Shaun P; Zizzo, Daniel John (2009) "The Value of Groups," AER 295-323

Karlan, Dean; List, John A. (2007) "Does Price Matter in Charitable Giving? Evidence from a Large-Scale Natural Field Experiment," AER

Mas, Alexandre; Moretti, Enrico (2009) "Peers at Work," AER

Rabin "Incorporating fairness into game theory and economics," AER 1993 1058-82.

## **7. Learning**

Bikhchandani, Sushil, David Hirshleifer, and Ivo Welch (1998) "Learning from the behavior of others: conformity, fads, and informational cascades," Journal of Economic Perspectives

Borgers, Tilman, Antonio J. Morales, and Rajiv Sarin (2004) "Expedient and monotone learning rules," Econometrica 72(2) 383-405.

Camerer, Colin. "Behavioral game theory: predicting human behavior in strategic situations," Chapter 13 in CLR 2004.

Camerer, Ho, and Chong (2004) "A cognitive hierarchy model of games," QJE

Camerer, Ho, and Chong (2003) "Models of thinking, learning, and teaching in games," AER

Crawford, Vincent P.; Gneezy, Uri; Rottenstreich, Yuval (2008) "The Power of Focal Points Is Limited: Even Minute Payoff Asymmetry May Yield Large Coordination Failures," AER 1443-58

Chakraborty, Archishman and Rick Harbaugh. (2010) "Persuasion by cheap talk," AER 2361-82

Erev and Roth "Predicting how people play games," AER 1998 p. 848-81.

Fudenberg, Drew and David Levine "Theory of learning in games," MIT Press 1999

Haile, Philip A.; Hortaçsu, Ali; Kosenok, Grigory (2008) "On the Empirical Content of Quantal Response Equilibrium," AER.

Selten, Reinhard; Chmura, Thorsten (2008) "Stationary Concepts for Experimental 2x2-Games," AER 938-66.

## **8. Behavioral models of contracting and organizations**

Benabou, R. and J. Tirole (2003) "Intrinsic and extrinsic motivation," Review of Economic Studies, 70, 489-520

Brown, Jennifer, Tanjim Hossain, and John Morgan. (2010) "Shrouded attributes and information suppression: evidence from the field," QJE 859-76

Camerer and Melmandier: "Behavioral economics of organizations," in Diamond and Vartiainen, 2007

Cremer, Jacques; Garicano, Luis; Prat, Andrea. (2007) "Language and the Theory of the Firm," Quarterly Journal of Economics. p 373-407

Ellingsen, Tore; Johannesson, Magnus (2008) "Pride and Prejudice: The Human Side of Incentive Theory," AER 990-1008.

Ellman Matthew and Paul Pezaris-Christou. (2010) "Organizational structure, communication, and group ethics," AER 2478-91

Della Vigna, S. and U. Malmendier (2004) "Contract Design and Self-Control: Theory and Evidence," QJE, 119, pp.353-402.

Fischer, Paul; Huddart, Steven (2008) "Optimal Contracting with Endogenous Social Norms," AER 1459-75

Oliver Hart. Hold-Up, Asset Ownership, and Reference Points. *Quarterly Journal of Economics*, 2009, pp. 267-300,

Oliver Hart, John Moore. Contracts as Reference Points. *Quarterly Journal of Economics*, 2008, pp.

1-48,

Tirole, Jean (2009) "Cognition and Incomplete Contracts", AER 265-94

Winter, Eyal (2004) "Incentives and discrimination," American Economic Review 94(3) 765-73

## **9. Other Applications of Behavioral Economics**

Akerlof, George A. "Behavioral macroeconomics and macroeconomic behavior," American Economic Review, 2002.

Bernheim and Rangel "Behavioral public economics: Welfare and decision analysis with nonstandard decision-makers," in DV 2007

Bohnet, Iris, Benedikt Herrmann, and Richard Zeckhauser. (2010) "Trust and the reference points for trustworthiness in Gulf and Western countries," QJE 811-28

Dahl, Gordon and Stefano Della Vigna. (2009) "Does movie violence increase violent crime?" QJE 677-734

DellaVigna, Stefano; Kaplan, Ethan. (2007) "The Fox News Effect: Media Bias and Voting," Quarterly Journal of Economics

Farber, Henry S. (2008) "Reference-Dependent Preferences and Labor Supply: The Case of New York City Taxi Drivers," AER

Frank, Richard. "Behavioral economics and health economics," in Diamond and Vertiainen 2007

Freund, Caroline; Özden, Çağlar (2008) "Trade Policy and Loss Aversion," American Economic Review

Krusell, Per, Burhanettin Kuruscu, and Anthony Smith. (2010) "Temptation and taxation," Econometrica 2063-84

Heidhues, Paul; Köszegi, Botond (2008) "Competition and Price Variation when Consumers Are Loss Averse," American Economic Review

Jolls, Christine, "Behavioral law and economics," in Diamond and Vertiainen 2007

Mullainathan, Sendhil "Psychology and development economics," in Diamond and Vartiainen 2007

Tanaka, Tomomi, Colin Camerer, and Quang Nguyen. (2010) "Risk and time preferences: linking experimental and household survey data from Vietnam," AER 557-71

## **10. Behavioral Finance**

Barberis and Thaler, "A survey of behavioral finance," in Constantinides et al. (ed) Handbook of the Economics of Finance, 2003

Barberis, N., M. Huang, and T. Santos "Prospect theory and asset prices," QJE 2001

Hirscheleifer, "Investor psychology and asset pricing," Journal of Finance, 56(4) 2001 1533-98.

DellaVigna, Stefano; Pollet, Joshua M. (2007) "Demographics and Industry Returns," AER

Shleifer, Andrei "Inefficient capital markets: an introduction to behavioral finance," Oxford University

Press 2000.

Lamont, Owen and Richard Thaler, "Can the market add and subtract?" JPE 2003

Hong, H., T. Lim, and J.C. Stein (2000) "Bad News Travels Slowly: Size, Analyst Coverage, and the Profitability of Momentum Strategies," Journal of Finance, 55(1), 265-295.

Kent, Subrahmanyam, and Titman, "Overconfidence, arbitrage, and equilibrium asset pricing," JOF 2001 921-65.

Hussam, Reshmaan N.; Porter, David; Smith, Vernon L.(2008) "Thar She Blows: Can Bubbles Be Rekindled with Experienced Subjects," AER 924-37.

Sendhil Mullainathan and Andrei Shleifer "Persuasion in finance," NBER WP No. 11838, 2006.