

ECONOMICS 324: BEHAVIORAL AND EXPERIMENTAL ECONOMICS

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WELLESLEY COLLEGE

Spring 2015

TIME AND LOCATION: This class will meet on Mondays, Wednesdays, and Thursdays, 11:10 - 12:20, in PNE 239. Please, check the detailed schedule below.

ABOUT THE COURSE: Econ 324 is a seminar in economics and psychology. The economics prerequisites for this course are Econ 201 and Econ 203 (or the equivalent). This course is designed to be a rigorous study of the ways economic and psychological factors jointly influence behavior. We will analyze choices that economic actors make in the lab and in the field and try to explain these choices with economic models. We will enrich the standard economic models by incorporating psychological mechanisms, including limited rationality, limited selfishness, and limited self-control. While some of the basic concepts will be familiar to you from Econ 201 and other courses you may have taken, most of the analysis will be conducted in a more mathematically sophisticated manner. Thus, familiarity with multivariable calculus topics such as basic constrained optimization is necessary. Students should go over the math preliminaries handout for review.

OFFICE HOURS: Your success in this course is of utmost importance to me! I will be around for questions more often than not. Please, don't hesitate to email me and set up an appointment if you can't make my regular office hours. Office hours and contact information are as follows:

E-Mail: olga.shurchkov@wellesley.edu [the best way of reaching me!]
Office: PNE 417 (Phone: x2984)
324 Office Hours: Tues. 2-3PM, Thur. 3-4PM, or by appointment.
Google Group: ECON-324-01-SP15

READINGS:

Friedman, Daniel and Shyam Sunder, "Experimental Methods: A Primer for Economists," Cambridge University Press.

Holt, Charles A. "Markets, Games, & Strategic Behavior"

Thaler, Richard. "The Winner's Curse: Paradoxes and Anomalies of Economic Life," Princeton, N.J.: Princeton University Press, 1994.

Papers and other readings posted on Google Docs (Google Drive).

COURSE REQUIREMENTS:

Homework (20%): This class will be work intensive. I will assign 5 problem sets over the course of the semester to be completed in groups of 3 students. All 5 will count toward your final grade. Other things to keep in mind:

- All students within the same group will receive the exact same score on the problem set.
- Problem sets will be posted in Google Docs by 5 PM on the date distributed.
- Problem sets should be handed in at the beginning of class on the due date, unless otherwise specified in the detailed syllabus below. If your group fails to do so for any reason, you will not get any credit for the problem set. Solutions will be posted by 5 PM on the due date.
- Because of the group nature of these assignments, extensions will not be granted and late problem sets will not be accepted.
- You must bring any grade-related discrepancies to my attention within a week after the graded problem sets are returned to you.

Midterm exams (45%): There will be two closed-book take-home midterms in this course. Please mark your calendars with the dates (see detailed schedule below). The midterm with a better relative performance will count 25%, while the midterm with a worse performance will count 20%. This grading scheme is designed to give you insurance against a “bad week” performance. There will not be any makeup exams unless you inform me within the first 2 weeks of class. All grading discrepancies must be brought to my attention within two weeks after the exams are returned to you.

Paper Assignment (25%): The final paper is due by 4 PM on the last day of final exams. This assignment is meant to for you to go “beyond the syllabus” and dig deeper into a particular topic that you find interesting. **In a group of 2 or 3 people**, you will write a 10-15 page paper that (a) proposes an experiment to study a question that you find interesting; (b) summarizes existing related literature; and (c) delineates the experimental design and procedures for your study.

At an earlier stage in the semester (see detailed schedule), you will present the motivation and the literature review on your topic of choice to the rest of the class. At this point, you will also propose a preliminary idea for a follow-up experiment to be critiqued by your classmates. The presentation will count for 10% of your final grade. The final paper (worth the remaining 15%) will summarize the literature on your topic and present the improved design of the experiment, based on the feedback you receive from me and your classmates during the presentation. The detailed guidelines for the presentation and the final paper, as well as an extensive list of articles that can help you with your lit review, can be found in the Paper subfolder on Google docs. All students within the same group will receive the exact same grade on the paper.

Class participation (10%): Although portions of the class will be lecture-based, I expect you to do a good deal of talking in this course. Three inputs are necessary for the success of an interactive classroom.

1. Be there and be on time!!! Even though I do not formally keep track of attendance, I expect you to be present at all the lectures and especially at your classmates’ presentations.
2. No gadgets! I do not allow the use of laptops, smart phones, etc. during class unless required for health reasons.
3. Participate! To ensure active participation, keep in mind the following:
 - Class participation is a relatively large portion of your grade. If I notice that you are late to class or absent a lot, it will affect your final grade.
 - In-class experiments are fun!
 - I reserve the right to ask for your participation even if you are not volunteering. Wrong answers will NOT be penalized.
 - I appeal to your sense of altruism. For better or worse, your contribution benefits not only you, but everyone in the class!
 - In addition to being an active member of the class, you are required to participate during your classmates presentations:
 - Ask thought-provoking questions and make comments.
 - Critique the proposed experimental design and suggest improvements.

THE HONOR CODE: More and more material can be found on the internet these days. Using any online solutions from other courses or websites constitutes an honor code violation. Similarly, using materials from the previous semesters of the course is not permitted. Finally, for your final paper and any other written assignments, direct quotes from sources must be properly cited and referenced and indirect sources must be mentioned.

STUDENTS WITH DISABILITY: Students needing disability accommodations should contact Jim Wice, Director of Disability Services, at 781-283-2434, jwice@wellesley.edu, room 316 Clapp Library, to present documentation of a disability and to make requests for accommodations. He will notify me of what accommodations are appropriate.

Day of week	Date	Topic for the class and other information	Assignment*
Mon	26-Jan	Introduction	Math preliminaries handout & exercises distributed
Wed	28-Jan	No class (snow day)	
Thur	29-Jan	Experimental Methods	Math due (not graded; ✓ or 0)
Mon	2-Feb	Market experiments: Double-Auction	Pset 1 distributed
Major Topic 2: Bounded Rationality			
Wed	4-Feb	Market Experiments: Common Value Auctions	
Thur	5-Feb	Behavioral Game Theory: Nash Equilibria in Theory and in Practice	
Mon	9-Feb	No class (snow day)	
Wed	11-Feb	Behavioral Game Theory: Coordination Failures	
Thur	12-Feb	NO CLASS (Office hours during class time)	
Mon	16-Feb	NO CLASS -- President's Day	
Wed	18-Feb	Individual Decisions under Uncertainty: Heuristics and Biases	Pset 2 distributed
Thur	19-Feb	Individual Decisions under Uncertainty: Heuristics and Biases	Pset 1 due (Friday, Feb 20)
Mon	23-Feb	Review of Expected Utility Theory	
Wed	25-Feb	Prospect Theory and Loss Aversion	
Thur	26-Feb	Utility and Happiness	
Mon	2-Mar	Application: Behavioral Finance and Market Efficiency	Pset 2 due; Pset 3 distributed
Major Topic 3: Bounded Self-Interest			
Wed	4-Mar	Application: Evidence Against Market Efficiency	
Thur	5-Mar	Evidence of Social Preferences in the Lab	
Mon	9-Mar	Modelling Social Preferences: The Fehr-Schmidt Model	
Wed	11-Mar	Evidence of Social Preferences in the Field	
Thur	12-Mar	PRESENTATIONS	Pset 3 due
Mon	16-Mar	Review in class	TAKE HOME EXAM DISTRIBUTED (1PM)
Wed	18-Mar	TAKE HOME MIDTERM DUE BY 4PM	
SPRING BREAK			
Mon	30-Mar	PRESENTATIONS	
Major Topic 4: Labor Markets and Productivity			
Wed	1-Apr	Labor Markets (Productivity and Incentives)	Pset 4 distributed
Thur	2-Apr	Labor Markets (Discrimination)	
Mon	6-Apr	Labor Markets (Gender Differences)	
Wed	8-Apr	Labor Markets (The Beauty Premium)	
Thur	9-Apr	PRESENTATIONS	
Mon	13-Apr	PRESENTATIONS	
Major Topic 5: Bounded Willpower			
Wed	15-Apr	Standard Model of Intertemporal Choice: Exponential Discounting	Pset 4 due; Pset 5 distributed
Thur	16-Apr	Behavioral Model of Intertemporal Choice: Hyperbolic Discounting	
Mon	20-Apr	NO CLASS -- Patriot's Day	
Tues	21-Apr	Examples and Applications of the Quasi-Hyperbolic Model	
Major Topic 6: The Power of Behavioral Economics			
Wed	22-Apr	Persuasion in Media and Politics	
Thur	23-Apr	Changing Behavior: Incentives and Nudges	
Mon	27-Apr	PRESENTATIONS	
Wed	29-Apr	NO CLASS -- Ruhlman Conference	Pset 5 due (by 11:10 AM in my mailbox)
Thur	30-Apr	PRESENTATIONS	
Mon	4-May	Review in class	TAKE HOME EXAM DISTRIBUTED (1PM)
Wed	6-May	TAKE HOME MIDTERM DUE BY 4PM	
Thur	7-May	Paternalism and Course Wrap-Up	
Tues	19-May	Final paper due by 4 PM (last day of exams)	

* Psets are due at the beginning of class on the due date, unless otherwise specified.

DETAILED LECTURE PLAN AND READINGS

Here is the detailed schedule with topics, assignments, and readings. Note that this schedule is tentative and is subject to change. Starred readings are required for class. Unstarred readings are optional, but recommended.

1. Major Topic: *Introduction and the History of Experimental Economics*

- **Monday, January 26th** – Introduction
 - Math Preliminaries Handout (with practice problems) Distributed
 - * Thaler, R. *The Winner's Curse*, Ch. 1, pp. 1–5.
 - * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 1.
- **Wednesday, January 28th** – TBA (Snow)
- **Thursday, January 29th** – Experimental Methodology
 - Math Preliminaries Exercises Due (not graded; ✓/0)
 - * Friedman, D. and S. Sunder. (1994). *Experimental Methods: A Primer for Economists*, Cambridge University Press, pp. 1-84. (Read over the course of the semester.)
 - Levitt, S. D. and J. A. List. “What Do Laboratory Experiments Tell Us About the Real World?” *Journal of Economic Perspectives*, 21(2): 153–174.
- **Monday, February 2nd** – Market Experiments: a Double-Auction
 - Pset 1 Distributed
 - * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 2.
 - Smith, V. (1964). “The Effect of Market Organization on Competitive Equilibrium,” *Quarterly Journal of Economics*, 78:181-201.

2. Major Topic: *Bounded Rationality*

- **Wednesday, February 4th** – Market Experiments: Common Value Auctions and the Winner's Curse
 - * Thaler, R. *The Winner's Curse*, Ch. 5, pp. 50-62.
 - * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 21.
- **Thursday, February 5th** – Behavioral Game Theory: Nash Equilibria in Theory and in Practice
 - * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 3.
 - * Nagel, R. (1995). “Unraveling in Guessing Games: An Experimental Study .” *American Economic Review*, 85(5): 1313–26.
- **Monday, February 9th** – NO CLASS (Snow)
- **Wednesday, February 11th** – Behavioral Game Theory: Coordination Failures
 - * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 26.
 - Van Huyck, J. B., Battalio, R. C., and R. O. Beil. (1990). “Tacit Coordination Games, Strategic Uncertainty, and Coordination Failure,” *American Economic Review*, 80 (1): 234-248.
- **Thursday, February 12th** – Review and office hours
- **Monday, February 16th** – NO CLASS (President's Day)
- **Wednesday, February 18th** – Individual Decisions under Uncertainty: Heuristics and Biases

- * Kahneman, D. and A. Tversky. (1974). “Judgment under Uncertainty: Heuristics and Biases,” *Science*, 185(4157): 1124-1131.
- **Thursday, February 19th** – Individual Decisions under Uncertainty: Heuristics and Biases
 - *Pset 1 Due; Pset 2 Distributed*
 - * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 30.
- **Monday, February 23rd** – Review of Expected Utility Theory and Evidence Against Its Predictions
 - * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 4 and 28.
 - Kahneman, D. and A. Tversky. (1979). “Prospect Theory: An Analysis of Decision under Risk,” *Econometrica*, 47 (2): 263-292.
- **Wednesday, February 25th** – Prospect Theory and Loss Aversion
 - * Thaler, R. *The Winner’s Curse*, Ch. 6, pp. 63–78.
 - Kahneman, D., Knetsch, J. L., and R. Thaler. (1990). “Experimental Tests of the Endowment Effect and the Coase Theorem,” *The Journal of Political Economy*, 98(6): 1325-1348.
- **Thursday, February 26th** – Utility and Happiness
 - * “Money Can’t Buy Me Love,” *The Economist*, June 16, 2012.
 - Kahneman, D., Thaler, R., Wakker, P. P., and R. Sarin. (1997). “Back to Bentham? Explorations of Experienced Utility,” *Quarterly Journal of Economics*, 112 (2): 375-405.
- **Monday, March 2nd** – Behavioral Finance: Market Efficiency
 - *Pset 2 Due; Pset 3 Distributed*
 - * Shleifer, A. “Are Financial Markets Efficient?” In *Inefficient Markets*, Ch. 1, pp. 1-27.

3. Major Topic: Bounded Self-Interest

- **Wednesday, March 4th** – Behavioral Finance: Evidence Against Market Efficiency
 - * Ball, S. B. and C. A. Holt. (1998). “Classroom Games: Speculation and Bubbles in an Asset Market,” *Journal of Economic Perspectives*, 12(1): 207-218.
- **Thursday, March 5th** – Evidence of Social Preferences in the Lab: Ultimatums and Dictators
 - * Thaler, R. *The Winner’s Curse*, Ch. 2 and 3.
 - * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 23.
 - Andreoni, J. (1995). “Cooperation in Public-Goods Experiments: Kindness or Confusion?” *The American Economic Review*, 85(4): 891-904.
- **Monday, March 9th** – Modelling Social Preferences: The Fehr-Schmidt Model of Inequity Aversion
 - * Fehr, E. and K. Schmidt. (1999). “A Theory of Fairness, Competition, and Cooperation,” *Quarterly Journal of Economics*, 114(3): 817-868 [Read only pp. 817-829 (through Ultimatum games) and 847-850 (Dictator games)]
 - * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 23.
- **Wednesday, March 11th** – Evidence of Social Preferences in the Field: Warm Glow and Charitable Giving
 - * Karlan, Dean and John List. “Does Price Matter in Charitable Giving? Evidence from a Large-Scale Natural Field Experiment,” *American Economic Review*, 2007, 97(5), 1774-1793.

- * Landry, C. E., Lange, A., List, J. A., Price, M. K., and N. G. Rupp. (2010). “Is a Donor in Hand Better Than Two in the Bush? Evidence from a Natural Field Experiment,” *American Economic Review*, 100(3): 958–83.

- **Thursday, March 12th** – GROUP PRESENTATIONS

- *Pset 3 Due*
- *Review Materials Distributed*

Monday, March 16th – Review in class; Take-home midterm distributed at 1PM

Wednesday, March 18th – Take-home midterm due by 4PM

***** SPRING BREAK *****

- **Monday, March 30th** – GROUP PRESENTATIONS

4. Major Topic: Labor Markets and Productivity

- **Wednesday, April 1st** – Labor Markets and Social Preferences: Productivity and Incentives

- *Pset 4 Distributed*
- * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 13.
- * Fehr, E. and A. Falk. (1999). “Wage Rigidity in a Competitive Incomplete Contract Market,” *The Journal of Political Economy*, 107(1): 106-134.
- * Gneezy, U. and J. List. (2006). “Putting Behavioral Economics to Work: Testing for Gift Exchange in Labor Markets Using Field Experiments,” *Econometrica*, 74(5): 1365-1384.

- **Thursday, April 2nd** – Labor Markets: Discrimination and Stereotype Threat

- * Holt, C. *Markets, Games, & Strategic Behavior*, Ch. 32.
- Hoff, K. and P. Pandey (2006). “Discrimination, Social Identity, and Durable Inequalities,” *American Economic Review* 96 (P&P): 206-211.
- Please, attend the Calderwood Lecture by Princeton University Professor Anne Case at 4:30PM.

- **Monday, April 6th** – Labor Markets: Gender Differences

- Shurchkov, O. (2012). “Under Pressure: Gender Differences in Output Quality and Quantity under Competition and Time Constraints,” *Journal of the European Economic Association*, 10(5): 1189-1213.

- **Wednesday, April 8th** – Labor Markets: The Beauty Premium

- * Hamermesh, D. S. and J. E. Biddle. (1994). “Beauty and the Labor Market,” *American Economic Review*, 84(5): 1174-1194.
- Mobius, M. and T. Rosenblat. (2006). “Why beauty matters,” *American Economic Review*, 96(1): 222–235.

- **Thursday, April 9th** – GROUP PRESENTATIONS

- **Monday, April 13th** – GROUP PRESENTATIONS

5. Major Topic: Bounded Self-Control

- **Wednesday, April 15th** – Standard Model of Intertemporal Choice with Exponential Discounting
 - *Pset 4 Due; Pset 5 Distributed*
 - * Thaler, R. *The Winner's Curse*, Ch. 8, pp. 92–106.
 - * Thaler, R. *The Winner's Curse*, Ch. 9, pp. 107–121.
 - * Chabris, C., Laibson, D., and J. Schuldt (forthcoming) “Intertemporal Choice,” in Palgrave Dictionary of Economics.
- **Thursday, April 16th** – Behavioral Model of Intertemporal Choice with Hyperbolic Discounting
 - * Della Vigna, S., and U. Malmendier (2006). “Paying Not to Go to the Gym,” *American Economic Review*, 96(3): 694-719.
- **Monday, April 20th** – NO CLASS (Patriot's Day)
- **Tuesday, April 21st** – Examples and Applications of the Quasi-Hyperbolic Model
 - * Mischel, W., Shoda, Y., and M. Rodriguez. (1989). “Delay of Gratification in Children,” *Science*, 244(4907): 933-938.

6. Major Topic: The Power of Behavioral Economics

- **Wednesday, April 22nd** – Persuasion in Media and Politics
 - * Thaler, R. H. and C. R. Sunstein, *Nudge*, Ch. 3.
 - * DellaVigna, S., and E. Kaplan (2007). “The Fox News Effect: Media Bias and Voting,” *Quarterly Journal of Economics*, 122(3): 1187-1234. (Read the non-technical digest.)
- **Thursday, April 23rd** – Changing Behavior: Incentives and Nudges
 - * Thaler, R. H. and C. R. Sunstein, *Nudge*, Ch. 4-6.
 - * Raj Chetty: Behavioral Economics and Public Policy (Video)
- **Monday, April 27th** – GROUP PRESENTATIONS
- **Wednesday, April 29th** – NO CLASS (Ruhlman Conference)
 - *Pset 5 Due* (by 11:10 AM in my mailbox)
- **Thursday, April 30th** – GROUP PRESENTATIONS
 - *Review Materials Distributed*

Monday, May 4th – Review in class; Take-home midterm distributed at 1PM

Wednesday, May 6th – Take-home midterm due by 4PM

- **Thursday, May 7th** – Paternalism and Course Wrap-up
 - * Thaler, R. H. and C. R. Sunstein, *Nudge*, Ch. 17.

Exam Week – Final paper due by 4 PM (last day of exams)