



## Department of Economics Course Outline

<b>Course:</b>	Economics 661 [Behavioral Economics]	<b>Term:</b>	Winter 2012
<b>Time:</b>	M W 16:00 – 17:15	<b>Section:</b>	01
<b>Instructor:</b>	Subhasish Dugar	<b>Place:</b>	SA 121 (subject to change)
<b>Office:</b>	SS 434	<b>Telephone.:</b>	220-5291
<b>Office Hours:</b>	By appointment	<b>E-mail:</b>	sdugar@ucalgary.ca

There is no textbook for this class. Research articles will be distributed (via Blackboard) by the professor on a regular basis.

*“All economics rests on some sort of implicit psychology. The only question is whether the implicit psychology is good or bad. We think it is simply unwise, and inefficient, to do economics without paying some attention to good psychology”*

Colin Camerer and George Loewenstein [2002, Advances in Behavioral Economics intro]

The interface of psychology and economics has a long history. In the 19<sup>th</sup> century, the two were indistinguishable. Economics books now considered classics (Adam Smith, Marshall, Fisher, Edgeworth) were filled with psychological insight and did not insist agents were always rational (in the sense of foresightful utility-maximization) or self-interested.

Early in this century, however, the two disciplines took different methodological paths. Psychologists began to use experiments to chart the details of how people think and behave, but did not seek to express theories in parsimonious mathematical terms. Economists turned to highly simplified models of individual agents as building blocks for theories of markets (general equilibrium) and strategic behavior (game theory).

This course will explore how economics has recently incorporated a number of insights and findings from psychology and experiments; what it can, in return, bring to the understanding of these phenomena; and examine some of the implications that follow for the workings of markets and policy.

## I. Blackboard

This course will use the online Blackboard system to track grades, post announcements, and distribute required readings. If you cannot regularly access the Blackboard, please alert the professor.

## II. Live with a Topic for Two weeks

The course topics will be covered in a series of 13 weeks lecture. The course will cover *six* topics (some of them are listed below) or so. For each topic we will use approximately *two* weeks or more. Of course, there is a trade-off between the number of important topics that one could cover during this time period and how much time one could possibly devote to each topic. I prefer to deal with a topic for a few weeks rather than just scratching the surface of a lot of topics, crammed together during this short time frame.

## III. Evaluation Schemes

There are no exams in the course. In your future lives as M.A./PhD-holding economists, you will not be evaluated using closed-book exams. All of the assignments in the class are intended to build skills that you'll use in the future as you do research, teach, present seminars, etc. Your course grade will be based on your performance on four referee reports, two in-class presentations, and a research proposal.

- Referee reports: you will complete four referee reports in which you will summarize a recent working paper in behavioral economics, assess its strengths and weaknesses, and make suggestions for improvement. Each referee report will be worth 10 points. Each student will submit his/her referee report on the assigned paper by a deadline, which will be announced in the class. Do not disclose a particular point about the paper that you think others might miss. Because if that point is really an important one about the paper and reveals a serious crack in that paper, then your referee report should get higher points. So, be self-interested!

Class presentations: you will make two in-class presentations over the course of the semester, each of which is worth 15 points. You can choose any paper of your choice, but the subject of that paper will be based on one of the topics covered in the class. In each presentation, you will “teach” the paper to the class and lead a class discussion of its strengths and weaknesses.

- Research proposal: you will submit to me a research proposal. The main objective of this course is to offer you ample opportunities so that you can develop your skills for becoming a successful researcher. The topic of the research paper will be chosen by you and it may or may not build on one topic that we have covered in the class or may bridge across topics. In your research proposal, you should try to come up with a research question that is original in nature. If the research proposal is about an experiment, your

proposal should detail the design to test the research question at hand. If the research proposal is about a theory that you want to develop, then your proposal should detail the model. The research paper will have 30 points.

### III. Presentation & Discussion Tips

The student presentation should:

- ✿ be typed, 12 point, Times New Roman, justified style,
- ✿ be well-prepared and organized,
- ✿ summarize any important experimental or empirical fact (*i.e.*, data) of the readings,
- ✿ summarize any theories and models provided by the paper,
- ✿ discuss if/how the theory or data might apply to other situations,
- ✿ and include some insights from related works (and perhaps knowledge from other courses).

The prepared referee report should:

- ✿ mention the main questions of the assigned paper,
- ✿ list the main findings of the paper,
- ✿ be constructively critical of the methodology and the experimental design of the paper,
- ✿ be careful of the data analysis and interpretation of the data,
- ✿ and suggest ways to improve the design and data analysis of the paper, and comment on the merit of the question and conclude with what particular economically relevant insight that paper has generated.

A good proposal:

- ✿ is between 5 and 10 pages,
- ✿ is broken into 3 to 6 coherent sections, such as (for example) “Introduction”, “Related Literature”, “Proposed Experiment”, “Hypotheses”, and “Conclusion”,
- ✿ has a title page with the author’s name, title, and an abstract of <100 words that summarizes the proposal,
- ✿ properly surveys related literature to show that (a) your idea hasn’t been done, and (b) your idea has spotted an interesting hole in the literature,
- ✿ provides *in very clear detail* what exactly you propose to work on,
- ✿ has a list of hypotheses,

✿ *Examples of potentially relevant topics:*

Addiction, anonymity, attention, auctions, auditing, bargaining, beauty, biases, bounded rationality, bracketing, bubbles, business, children, communication, confidence, confirmatory bias, contract theory, cooperation, coordination, corruption, crime, deception (in or outside the lab), decision making, deductive reasoning, development, discrimination, double auctions, emotions (including anger, anxiety, disappointment, elation, envy, fear, guilt, meta-guilt,

irritation, joy, regret, shame, surprise) entrepreneurial discovery, evolution, equity premium puzzle, ethnicity, evolution, experimental business research, fairness, feelings, field experiments, finance, fines, framing, gender, government failure, group decisions, happiness, health, hedonics, herding, heuristics, history of behavioral/experimental economics, hyperbolic discounting, identity, imitation, implementation, incentives, inference, informational cascades, internet, intertemporal choice, judgment, law, learning, liberty, loss aversion, lying, macro, marketing, markets, matching, mechanism design, memory, mental accounting, money illusion, mood, multicriteria games, neuroeconomics, networks, optimism, organizations, paternalism, peer group effects, pessimism, policy, political science, political stock markets, preference reversals, procedural rationality, procrastination, promises, prospect theory, psychological games, public choice, public goods, punishment, quantal response, reciprocity, reference dependence, reputation, revealed preference, revenge, rewards, sabotage, savings, script analysis, signaling, shirking, social distance, social norms, social preferences, social respect, somatic markers, speculation, statistics, status, teams, temptation, threats, time consistency, time preference, unawareness, visceral factors, voting, wages, welfare...

#### **IV. Overview of Behavioral Decision Theory**

✿ Matthew Rabin, “A Perspective on Psychology and Economics,” *European Economic Review* 46 (2002), pp. 657-685.

✿ Colin Camerer and George Loewenstein, “Behavioral Economics: Past, Present, Future,” Chapter 1 in “Advances”.

✿ Daniel Kahneman, “Maps of Bounded Rationality: Psychology for Behavioral Economics,” *American Economic Review* 93 (2003), 1449-1475.

✿ Colin Camerer, pages 617-673 of “Individual Decision Making,” Chapter 8 in John Kagel and Alvin Roth, editors, *The Handbook of Experimental Economics*, Princeton, NJ: Princeton University Press, 1995, pp. 587-703

✿ Daniel Kahneman, “A Psychological Perspective on Economics,” *American Economic Review Papers and Proceedings* 93 (2003), pp. 162-168.

#### **V. Tentative List of Topics (we will cover only six of them)**

- ✿ Psychology & Economics
- ✿ Altruism, fairness, and Reciprocity
- ✿ Extrinsic incentives, intrinsic motivation, and social norms
- ✿ Reference dependence and Loss Aversion
- ✿ Discrimination in the Lab & the Field
- ✿ Mixed-Strategy Equilibrium: Tennis & Soccer
- ✿ Incentives and Tournaments
- ✿ Coordination Games

**Grade Determination:**

As a guide to determining standing, these letter grade equivalences will generally apply:

<b>A+ 95 - 100</b>	<b>B+ 77 - 81</b>	<b>C+ 67 - 69</b>	<b>D+ 56 - 59</b>
<b>A 87 - 94</b>	<b>B 74 - 76</b>	<b>C 64 - 66</b>	<b>D 50 - 55</b>
<b>A- 82 - 86</b>	<b>B- 70 - 73</b>	<b>C- 60 - 63</b>	<b>F 0 - 49</b>

A passing grade on any particular component of the course is not required for a student to pass the course as a whole.

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Society of Undergraduates in Economics (S.U.E.):

[www.ucalgary.ca/sue](http://www.ucalgary.ca/sue)

**Notes:**

- Students seeking reappraisal of a piece of graded term work (term paper, essay, etc.) should discuss their work with the Instructor within *fifteen days* of the work being returned to the class.
- It is the student's responsibility to request academic accommodations. If you are a student with a documented disability who may require academic accommodation and have not registered with the Disability Resource Centre, please contact their office at 220-8237. Students who have not registered with the Disability Resource Centre are not eligible for formal academic accommodation. You are also required to discuss your needs with your instructor no later than fourteen (14) days after the start of this course.

Safewalk / Campus Security: 403-220-5333  
Emergency Assembly Point: Social Sciences Food Court

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