



Department of Economics Course Outline

		Term:	Winter 2010
Course:	Economics 661 [Behavioral Economics]	Section:	01
Time:	MW 13:00 – 14:15	Place:	SS 423 (subject to change)
Instructor:	Subhasish Dugar		
Office:	SS 434	Telephone.:	220-5291
Office Hours:	By appointment	E-mail:	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 19th 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.

III. 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). For each topic we will use *two* weeks, or in other words, we will spend *four* days of lecture. 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.

For each topic, the following procedure will be used:

Class day 1 (75 min): Introduce a particular topic or phenomenon in the class. Discuss classic papers in that area.

Class day 2 (75 min): Lecture on the predictions of the “standard” theory. Some discussion will follow.

Class day 3 (75 min): Lecture on the related experiments. Some discussion will follow.

Class day 4 (75 min): Class presentation of the readings by the assigned student. Open discussion of the readings and related ideas at the conclusion of the presentation.

Weekend Homework: One or two readings will be assigned. One student or a group of students will prepare a presentation of the readings for discussion on *Class day 4*. This student is expected to take lead on that topic and conclude the topic and raise important questions open for future research. Everyone (including the student presenter) must prepare a one-page referee report of the assigned reading(s). This report is due for that topic on *Class day 4* at the beginning of the class.

III. Think, Talk, & Write for Grades

The following outlines the evaluation schemes that will be used in the course. The weight assigned to each scheme *may* change at the discretion of the professor within the first two weeks of the class.

30% Each student must write one referee report on an exogenously assigned paper on each topic. Each report carries a weight of 5%. Thus, a student must write a total of six referee reports on six different topics. If you miss a report, you lose all the points.

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20% Students should actively participate in class discussions. Say something meaningful; just do not babble for getting points.

30% A student must present twice, either individually or in a group during the course time. Each presentation carries 15% weight. The presentation should be in a Powerpoint module. Stay sharp and to-the-point during the presentation.

20% All students must write a research proposal, which is due on the last day of the class. This is equivalent to a final exam. Try doing something so that that piece can be turned into a potential dissertation topic. Meet with the professor to hatch and sharpen an idea.

IV. Presentation & Discussion Tips

The *Class day 4* will open with a student presentation. Also, each student will submit his/her referee report on the assigned paper. Do not disclose a particular point about the paper that you think others might miss. Because if that point is really an important point about the paper and reveals a serious crack in that paper, then your referee report should get higher points. So, be self-interested!

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.

V. 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 research paper you are supposed to write may build on one topic (that we have covered in the class) or bridge across topics. Or, it may involve a topic that we have not covered in the class.

Your job is to “sell” your idea to the professor and your classmates (that is, your potential reader) via a research proposal and presentation to be given the last week. After the presentations, the class will vote on the best proposal and the top two proposals will be declared the winners.

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 about what you expect to find,
- ✿ and provides *in very clear detail* what resources you will need (money, subjects, computer lab, *etc.*).
- ✿ *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...

VI. Overview of Behavioral Decision Theory

- ✿ Matthew Rabin, “A Perspective on Psychology and Economics,” *European Economic Review* 46 (2002), pp. 657-685. .../5

✱ 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.

VI. 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

Book(s) on Reserve:

Papers in Experimental Economics, Smith, Vernon, Cambridge University Press, 1991

Course Outline:

This course brings psychological insights to bear on economic models.

Grade Determination and Final Examination Details:

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

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

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

Students' Union Vice-President Academic:

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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
