

Experimental and Behavioral Economics
We&Th 12:00-14:00, Room: B0.10

Instructor:

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OH: Friday 10:00-11:20 AM, or by appointment.

General Readings: For Behavioral Economics part, we will follow chapters 1-3 of:

Gintis, Herbert (2009), *The Bounds of Reason. Game Theory and the Unification of Behavioral Sciences*, Princeton University Press.

There is no textbook for the Experimental Economics part, but two useful references are:

Kagel, John and Alvin E. Roth (1995), *The Handbook of Experimental Economics*, Princeton University Press.

Camerer, Colin (2003), *Behavioral Game Theory*, Princeton University Press.

Complementary Material: There are a few useful websites where finding up-to-date content on Experimental and Behavioral Economics:

Alvin Roth's website: <http://www.stanford.edu/~alroth/>. Updated versions of the Handbook can be downloaded.

Charles Holt's bibliography of Experimental Economics:
<http://people.virginia.edu/~cah2k/y2k.htm>

RSF Behavioral Economics Reading List:
<http://www.russellsage.org/blog/r-mascarenhas/behavioral-economics-reading-list>

Video series: A Short Course in Behavioral Economics:
<http://www.edge.org/videos/year/2008>

Course Requirements:¹

1. Attend all classes and participate in open discussions of assigned readings.
2. Complete and present an experimental project on an approved topic, which you must discuss in advance with the instructor.
3. Pass a final written exam (23 February).

Course Outline:

Lecture 1 (12 January)	Introduction
Lecture 2 (13 January)	The Meaning of Rational Action
Lecture 3 (18 January)	Time Inconsistency
Lecture 4 (19 January)	Risk and the Shape of the Utility Function
Lecture 5 (25 January)	Altruistic Giving and Conditional Cooperation
Lecture 6 (26 January).....	Modeling Social Preferences: Inequality Aversion
Lecture 7 (1 February)	Modeling Social Preferences: Reciprocity
Lecture 8 (2 February)	Strategic Interaction: Coordination
Lecture 9 (8 February)	Strategic Interaction: Bargaining
Lecture 10 (9 February)	Topics in Experimental Economics I
Lecture 11 (15 February)	Topics in Experimental Economics II
Lecture 12 (16 February)	Student Presentations

¹ This course is taught under the assumption that students have completed the Master microeconomics sequence.

Readings and Selected Papers:

Lecture 1: Introduction

- Ashraf, Nava, Colin F. Camerer and George Loewenstein (2005), 'Adam Smith, Behavioral Economist', *Journal of Economic Perspectives*, 19 (3), pp. 131–145.
- Brooks, David (2008), 'The Behavioral Revolution', *The New York Times*, October 28.
- Guala, F. 2008. Experimental Economics, history of. In Durlauf, N. and Blume, L.E. (eds.), *The New Palgrave Dictionary of Economics*.
- Loewenstein, George and Peter Ubel (2010), 'Economics Behaving Badly', *The New York Times*, July 14.
- Roth, Alvin E. (1995), 'Introduction to experimental economics', in John H. Kagel and Alvin E. (eds.), *The Handbook of Experimental Economics*, Princeton: Princeton University Press, pp. 3-109.

Lecture 2: The Meaning of Rational Action

- Gintis, Herbert (2009), *The Bounds of Reason*, Princeton: Princeton University Press. **Chapter 1, pp. 1-8.**
- Kahneman, Daniel, and Amos Tversky (1974), 'Judgment under Uncertainty: Heuristics and Biases', *Science*, 185(4157), September 27, 1974, 1124-1131.
- Mass-Colell, Andreu, Michael D. Whinston and Jerry R. Green (1995), *Microeconomic Theory*, New York: Oxford University Press. **Chapter 1.**

Lecture 3: Time Inconsistency

- Frederick, Shane, George Loewenstein and Ted O'Donoghue (2003), 'Time Discounting and Time Preference: A Critical Review', *Journal of Economic Literature*, XL, pp. 351-401.
- Gintis, Herbert (2009), *The Bounds of Reason*, Princeton: Princeton University Press. **Chapter 1, pp. 8-11.**

Lecture 4: Risk and the Shape of the Utility Function

- Gintis, Herbert (2009), *The Bounds of Reason*, Princeton: Princeton University Press. **Chapter 1, pp. 11-26.**
- Kahneman, Daniel, Jack L. Knetsch and Richard H. Thaler (1990), 'Anomalies: The Endowment Effect, Loss Aversion, and the Status Quo Bias', *Journal of Economic Perspectives*, 5(1), pp. 193-206.
- Kahneman, Daniel, and Amos Tversky (1984), 'Choices, Values, and Frames', *American Psychologist*, 39(4), pp. 341-350.

- Tversky, Amos, and Daniel Kahneman (1981), 'The Framing of Decisions and the Psychology of Choice', *Science*, 211, pp. 453-458.

Lecture 5: Altruistic Giving and Conditional Cooperation

- Andreoni, James and John Miller (2002), 'Giving According to GARP: An Experimental Test of the Consistency of Preferences for Altruism', *Econometrica*, 70 (2), pp. 737-753.
- Fischbacher, Urs, Simon Gächter and Ernst Fehr (2001), 'Are People Conditionally Cooperative? Evidence from a Public Goods Experiment', *Economics Letters*, 71, pp. 397-404
- Gintis, Herbert (2009), *The Bounds of Reason*, Princeton: Princeton University Press. **Chapter 3, pp. 45-67.**

Lecture 6: Modeling Social Preferences: Inequality Aversion

- Fehr, Ernst and Klaus M. Schmidt (1999), 'A Theory of Fairness, Competition and Cooperation', *Quarterly Journal of Economics*, 114(3), pp. 817-868.
- Gintis, Herbert (2009), *The Bounds of Reason*, Princeton: Princeton University Press. **Chapter 3, pp. 68-71.**

Lecture 7: Modeling Social Preferences: Reciprocity

- Falk, Armin and Urs Fischbacher (2006), 'A Theory of Reciprocity', *Games and Economic Behavior*, 54(2), pp. 293-31.
- Falk, Armin, Ernst Fehr and Urs Fischbacher (2008), 'Testing Theories of Fairness—Intentions matter', *Games and Economic Behavior*, 62 (1), pp. 287-303.

Lecture 8: Strategic Interaction: Coordination

- Camerer, Colin (2003), *Behavioral Game Theory*, Princeton University Press. **Chapter 7.**
- Kagel, John and Alvin E. Roth (1995), *The Handbook of Experimental Economics*, Princeton University Press. **Chapter 3.**

Lecture 9: Strategic Interaction: Bargaining

- Camerer, Colin (2003), *Behavioral Game Theory*, Princeton University Press. **Chapter 4.**
- Kagel, John and Alvin E. Roth (1995), *The Handbook of Experimental Economics*, Princeton University Press. **Chapter 4.**
- Baron, David P. and John A. Ferejohn (1989), 'Bargaining in legislatures', *American Political Science Review*, 83(4), pp. 1181-1206.
- Miller, Luis, and Christoph Vanberg (2013), 'Decision costs in legislative bargaining: an experimental analysis', *Public Choice*, 155 (3-4), pp. 373-394.

Lecture 10: Methodological Issues in Experimental Economics

- Bardsley, Nicholas, Robin Cubitt, Graham Loomes, Peter Moffatt, Chris Starmer and Robert Sugden (2009), *Experimental Economics: Rethinking the Rules*, Princeton: Princeton University Press.
- Roth, Alvin E. (1995), 'Introduction to experimental economics', in John H. Kagel and Alvin E. (eds.), *The Handbook of Experimental Economics*, Princeton: Princeton University Press, pp. 3-109.