

Syllabus
Behavioral Economics – Theory and the Lab 38918-50
Spring 2021
Professor Alex Imas

This is a research class intended for Ph.D. students in economics, behavioral science, finance, and other related fields. The class will be discussion based, so students must come to class well prepared.

Contact:

Instructor: Professor Alex Imas (alex.imas@chicagobooth.edu)

TA: Donovan Rowsey (drowsey@chicagobooth.edu)

Location:

All classes will be held virtually on Zoom:

<https://uchicago.zoom.us/j/99905363766?pwd=YzQzUVZVS0MrU2FVTEh0MTBIZmNOdz09>

Password: 359827

There will be four types of assignments:

1. Referee reports. You will be asked to prepare a referee report for a paper that will be discussed in class. The report should be 2-3 pages in length and include a short summary of the paper, followed by critiques and suggestions for the authors. It will be due on May 25th. The report will be on:

Associative Memory and Belief Formation, Enke, Schwerter, Zimmermann, Working Paper 2021,

<https://docs.google.com/viewer?a=v&pid=sites&srcid=ZGVmYXVsdGRvbWFpbmNlY29uZmxvcmlhbnppbW1lcm1hbm58Z3g6MjAzZTU0NGU2NzM2NjFkNg>

3. Idea briefs. You will be asked write a short idea brief (2-3) pages focusing on a research idea related to the material covered in class. The idea brief should provide a short motivation for the research question and outline the theoretical or empirical strategy that would be used to explore it. For example, if the research idea involves an experiment, the brief should include a sketch of an experimental design. It will be due on June 1st.

4. Replication/extension project. At some point during the quarter, each student must choose either a theoretical, field empirical, or laboratory paper for this project. Those choosing a theoretical paper, should thoroughly check the proof/s of the paper for accuracy, and provide a robustness analysis (e.g. relax an assumption or make a different set of assumptions) or provide an extension of the theoretical result. Those choosing a field empirical paper, should obtain the data used in the paper, replicate the main results, and do robustness by performing alternative empirical specifications that are not reported in the paper. Those choosing a laboratory paper should replicate and possibly extend the findings in the paper using MTurk or lab participants. The project will be due at the end of the quarter.

5. Final Paper. The most important assignment for the class is to complete a research paper on a topic approved by me. Research proposals are due on the last day of class and the final paper is due by August 28th. These papers can be theoretical, field empirical, or laboratory-based and should be related to behavioral economics in some way.

The syllabus, along with homework assignments and other announcements, will be placed on the course's Canvas site. For students who have not used Canvas (non-Booth students), please contact the TA Donovan Rowsey (drowsey@chicagobooth.edu) for instructions on how to gain access to the course site.

Some of the readings for the course come from two excellent edited volumes that you can purchase:

Advances in Behavioral Economics

Colin Camerer, George Loewenstein and Matthew Rabin
Russell Sage Foundation and Princeton University Press, 2004.

Choices, Values, and Frames

Daniel Kahneman and Amos Tversky
New York: Russell Sage Foundation; Cambridge, U.K.: Cambridge University Press, 2000.

Other books that would be good to own:

Misbehaving: The Making of Behavioral Economics.

Richard H. Thaler
New York: W.W. Norton & Company, 2015

The Winner's Curse: Paradoxes and Anomalies of Economic Life

Richard H. Thaler
Princeton, N.J.: Princeton University Press, 1994.

Quasi Rational Economics

Richard H. Thaler
New York: Russell Sage Foundation, 1991.

Nudge: Improving Decisions about Health, Wellness, and Happiness

Richard H. Thaler and Cass R. Sunstein
New York: Penguin 2009.

The Handbook of Experimental Economics

John Kagel and Alvin Roth, editors.
Princeton, N.J.: Princeton University Press, 1995.

Policy and Choice: Public Finance through the Lens of Behavioral Economics

William Congdon, Jeffrey Kling, and Sendhil Mullainathan,
Washington, D.C.: Brookings Institution Press, 2011
Free electronic copy: <http://www.brookings.edu/press/Books/2011/policyandchoice.aspx>

Reading Assignments:

*** indicates required reading**

Week 1, March 30th: Introduction

*Thaler, Richard H. 2016. "Behavioral Economics: Past, Present, and Future." *American Economic Review*, 106(7): 1577-1600.

***Toward a Positive Theory of Consumer Choice**

Richard H. Thaler

Journal of Economic Behavior & Organization 1.1 (1980): 39-60.

Choices, Values, and Frames, p. 269 (Chapter 15).

<http://www.sciencedirect.com/science/article/pii/0167268180900517>

***Psychology and Economics: Evidence from The Field**

Stefano DellaVigna

Journal of Economic Literature 47.2 (2009): 315-72.

<http://www.nber.org/papers/w13420.pdf>

Individual Decision Making

Colin Camerer

The Handbook of Experimental Economics, p. 587-616.

Maps of Bounded Rationality: Psychology for Behavioral Economics

Daniel Kahneman

American Economic Review 93.5 (2003): 1449-475.

<http://www.jstor.org/stable/3132137>

The Methodology of Positive Economics

Milton Friedman

Essays in Positive Economics. Chicago, IL: The University of Chicago Press, 1953.

Week 2, April 6th: Decisions under Uncertainty and Consumer Choice

***Prospect Theory: An Analysis of Decision under Risk**

Daniel Kahneman and Amos Tversky

Econometrica 47.2 (1979): 263-92.

Choices, Values, and Frames, p. 17 (Chapter 2).

<http://www.jstor.org/stable/1914185>

Advances in Prospect Theory: Cumulative Representation of Uncertainty

Amos Tversky and Daniel Kahneman

Journal of Risk and Uncertainty, 5, 297-323

<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.320.8769&rep=rep1&type=pdf>

Diminishing Marginal Utility of Wealth Cannot Explain Risk Aversion

Matthew Rabin

Choices, Values, and Frames, p. 202 (Chapter 11).

<http://129.3.20.41/eps/game/papers/0012/0012002.pdf>

The Endowment Effect

Keith Ericson and Andreas Fuster

Annual Review of Economics, 6, 555-579

<https://www.annualreviews.org/doi/abs/10.1146/annurev-economics-080213-041320>

Guest Speaker:

Daniel Gottlieb, *London School of Economics*

Prospect Theory and Insurance

<https://personal.lse.ac.uk/GOTTLIED/publications/PT-Life-Insurance-Annuities.pdf>

Week 3, April 13th: Decisions under Uncertainty and Consumer Choice

***A Model of Reference-Dependent Preferences**

Botond Koszegi and Matthew Rabin

The Quarterly Journal of Economics 121.4 (2006): 1133-165.

<http://qje.oxfordjournals.org/content/121/4/1133.full.pdf>

Salience Theory of Choice under Risk

Pedro Bordalo, Nicola Gennaioli and Andrei Shleifer

Quarterly Journal of Economics (2012)

https://www.dropbox.com/s/0bhbw2qmg2sy1ci/salience_theory_of_choice_under_risk_qje.pdf?dl=0

Mental Accounting Matters

Richard H. Thaler

Journal of Behavioral Decision Making 12.3 (1999): 183-206.

Advances in Behavioral Economics, p. 75 (Chapter 3).

<http://www.tinbergen.nl/ti-events/tilectures2007/thaler2.pdf>

The Realization Effect: Risk Taking after Realized versus Paper Outcomes

Alex Imas

American Economic Review (2016)

<https://alex-imas-3nnf.squarespace.com/s/Realization-Effect.pdf>

Stereotypes

Pedro Bordalo, Katie Coffman, Nicola Gennaioli and Andrei Shleifer

Quarterly Journal of Economics (2016)

https://www.dropbox.com/s/bmq4etmre58nso8/stereotypes.qje_.october2016.pdf?dl=0

Reference Points and Effort Provision

Johannes Abeler, Armin Falk, Lorenz Goette and David Huffman

American Economic Review (2011)

<https://drive.google.com/uc?export=download&id=1vPLX4mNreYvpqvYuUmYBAO952bWKwmlb>

Guest Speaker:

Yusufcan Masatlioglu, *University of Maryland*

“Choice with Endogenous Frames” with Andrew Ellis

Review of Economic Studies, 2021

<http://econweb.umd.edu/~masatlioglu/CTM.pdf>

Week 4, April 20th: Social Preferences

***Understanding Social Preferences with Simple Tests**

Gary Charness and Matthew Rabin

Quarterly Journal of Economics 117.3 (2002): 817-69.

<http://qje.oxfordjournals.org/content/117/3/817.full.pdf+html>

Exploiting Moral Wiggle Room: Experiments Demonstrating an Illusory Preference for Fairness

Jason Dana, Daylian Cain and Robyn Dawes

Economic Theory, 33 (2007): 67-80

<https://link.springer.com/article/10.1007/s00199-006-0153-z>

Identity, Morals and Taboos: Beliefs as Assets

Roland Benabou and Jean Tirole

Quarterly Journal of Economics, 126 (2011): 805-855

<https://www.princeton.edu/~rbenabou/QJE%202011.pdf>

Social Image and the 50-50 Norm: A Theoretical and Experimental Analysis of Audience Effects

James Andreoni and B. Douglas Bernheim

Econometrica 77.5 (2009): 1607-636.

<http://onlinelibrary.wiley.com/doi/10.3982/ECTA7384/pdf>

Incentives and Prosocial Behavior

Roland Benabou and Jean Tirole

American Economic Review, 96.6 (2006): 1652-1678

<https://www.aeaweb.org/articles?id=10.1257/aer.96.5.1652>

Excusing Selfishness in Charitable Giving: The Role of Risk

Christine Exley

Review of Economic Studies, 83.2 (2015): 587-628

Fairness as a Constraint on Profit Seeking: Entitlements in the Market

Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler

The American Economic Review 76.4 (1986): 728-41.

Advances in Behavioral Economics, p. 252 (Chapter 8).

<http://www.jstor.org/stable/1806070>

What do Laboratory Experiments Measuring Social Preferences tell us about the Real World?

Steven D. Levitt and John A. List

The Journal of Economic Perspectives 21.2 (2007): 153-74.

<http://www.jstor.org/stable/30033722>

Working for the 'Warm Glow': On the Benefits and Limits of Prosocial Incentives

Alex Imas

Journal of Public Economics, 114 (2014): 14-18
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2343445

Guest Speaker:

Silvia Saccardo, *Carnegie Mellon University*

“Cognitive Flexibility or Moral Commitment? Evidence of Anticipated Belief Distortion” (with Marta Serra-Garcia)

https://www.google.com/url?q=https%3A%2F%2Fpapers.ssrn.com%2Fsol3%2Fpapers.cfm%3Fabstract_id%3D3676711&sa=D&sntz=1&usg=AFQjCNFiXUAeMyuHOweEijYyvCtO9i99kg

Week 5, April 27th: Experimental Design

***Experimental Economics from the Vantage Point of Behavioral Economics**

George Loewenstein

The Economic Journal, 109 (1999): 25-34

<http://onlinelibrary.wiley.com/store/10.1111/1468-0297.00400/asset/1468-0297.00400.pdf?v=1&t=j7s2xasz&s=7cd9fe482f749d13cb9be590329baa1bd4b58188>

***Economics in the Laboratory**

Vernon Smith

Journal of Economic Perspectives, 8 (1994): 113-131

<https://www.jstor.org/stable/2138154>

***To Deceive or Not to Deceive: The Effect of Deception on Future Laboratory Experiments**

Julian Jamison, Dean Karlan and Laura Schechter

Journal of Economic Behavior and Organizations, 68 (2008), 477-488

<http://isps.yale.edu/research/publications/isps08-014>

***Experimental Methods: Between-subjects and Within-subject design**

Gary Charness, Uri Gneezy and Michael Kuhn

Journal of Economic Behavior and Organizations, 81 (2012), 1-8

<http://rady.ucsd.edu/docs/faculty/rest%20published.pdf>

***The Effects of Financial Incentives in Experiments: A Review of Capital-Labor-Production Framework**

Colin Camerer and Robin Hogarth

Journal of Risk and Uncertainty, 19 (1999): 7-42

<https://link.springer.com/article/10.1023/A:1007850605129>

Economic Theory and Experimental Economics

Larry Samuelson

Journal of Economic Literature, 43 (2005): 65-107

Psychology and Experimental Economics: A Gap in Abstraction

Dan Ariely and Michael Norton

Current Directions in Psychological Science, 16 (2007): 336-339

Monetary Rewards and Decision Costs in Experimental Economics

V. Smith and J. Walker

Economic Inquiry, 21 (1989): 245-261

An Experimental Study of Competitive Market Behavior

Vernon Smith

Journal of Political Economy, 70 (1962): 111-137

Experimental Methods: When and why contextual instructions are important

Aleksandr Alekseev, Gary Charness and Uri Gneezy
Journal of Economic Behavior and Organizations, 134 (2017), 48-59

Experimental Methods: When and why contextual instructions are important

Aleksandr Alekseev, Gary Charness and Uri Gneezy
Journal of Economic Behavior and Organizations, 134 (2017), 48-59

Experimental Methods: Eliciting Risk Preferences

Gary Charness, Uri Gneezy and Alex Imas
Journal of Economic Behavior and Organizations, 87 (2013), 43-51

Lab in the Field: Measuring Preferences in the Wild

Uri Gneezy and Alex Imas
In Handbook of Field Experiments, edited by Abhijit Banerjee and Esther Duflo

Week 6, May 4: Biased Beliefs

***Errors in Probabilistic Reasoning and Judgment Biases**

Daniel Benjamin

Handbook of Behavioral Economics

<https://www.nber.org/papers/w25200.pdf>

Judgment under Uncertainty: Heuristics and Biases

Amos Tversky; Daniel Kahneman

Science, New Series, Vol. 185, No. 4157. (Sep. 27, 1974), pp. 1124-1131.

<http://links.jstor.org/sici?sici=00368075%2819740927%293%3A185%3A4157%3C1124%3AJU%3EHAB%3E2.0.CO%3B2-M>

Ownership, Learning, and Beliefs

Sam Hartzmark, Sam Hirshman, and Alex Imas

Quarterly Journal of Economics, 2021

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3465246

Overconfidence and Excess Entry: An Experimental Approach

Colin Camerer and Dan Lovallo

American Economic Review 89.1 (1999): 306-18.

<http://www.jstor.org/stable/116990>

The Curse of Knowledge in Economic Settings: An Experimental Analysis

Colin Camerer, George Loewenstein, and Martin Weber

Journal of Political Economy 97.5 (1989): 1232.

<http://www.jstor.org/stable/1831894>

The Hot Hand in Basketball: On the Misperception of Random Sequences

Tom Gilovich, Robert Vallone, and Amos Tversky

Cognitive Psychology 17.3 (1985): 295-314.

<http://psych.cornell.edu/sec/pubPeople/tdg1/Gilo.Vallone.Tversky.pdf>

Projection Bias in Predicting Future Utility

George Loewenstein, Ted O'Donoghue, and Matthew Rabin

The Quarterly Journal of Economics 118.4 (2003): 1209-248.

<http://www.jstor.org/stable/25053938>

Optimal Expectations

Markus K. Brunnermeier and Jonathan A. Parker

American Economic Review 95.4 (2005): 1092-118.

<http://www.nber.org/papers/w10707.pdf>

What You See is All There Is

Ben Enke

Quarterly Journal of Economics, (2020)

https://benjamin-enke.com/pdf/What_you_see.pdf

Guest Speaker:

Aislinn Bohren, *University of Pennsylvania*

“Learning with Heterogeneous Misspecified Models: Characterization and Robustness” (with Daniel Hauser), *Econometrica*.

https://www.aislinnbohren.com/s/BohrenHauser_LearningModelMisspecification_Feb2021.pdf

Read Intro, Section 2 and Section 4

“Dynamics of Discrimination: Theory and Evidence” (with Alex Imas and Michael Rosenberg), *American Economic Review*.

https://www.aislinnbohren.com/s/BohrenImasRosenberg_DynamicsDiscrimination_January2019.pdf

Week 7, May 11th: Behavioral Game Theory

***A Cognitive Hierarchy Model of Games**

Colin Camerer, Teck-Hua Ho, and Juin-Kuan Chong
The Quarterly Journal of Economics 119.3 (2004): 861-98.
<http://www.jstor.org/stable/25098704>

Cursed Equilibrium

Erik Eyster and Matthew Rabin
Econometrica 73.5 (2005): 1623-672.
<http://www.jstor.org/stable/3598885>

Can Relaxation of Beliefs Rationalize the Winner's Curse?: An Experimental Study

Asen Ivanov, Dan Levin, and Muriel Niederle
Econometrica 78.4 (2010): 1435-452.
<http://onlinelibrary.wiley.com/doi/10.3982/ECTA8112/pdf>

Anomalies: The Winner's Curse

Richard H. Thaler
Journal of Economic Perspectives 2.1 (1988): 191-202.
<http://www.jstor.org/stable/1942752>

The Dirt on Coming Clean: Perverse Effects of Disclosing Conflicts of Interest

Daylian Cain, George Loewenstein, and Don Moore
The Journal of Legal Studies 34.1 (2005): 1-25.
<http://www.jstor.org/stable/10.1086/426699>

Coarse Thinking and Persuasion

Sendhil Mullainathan, Joshua Schwartzstein, and Andrei Shleifer
The Quarterly Journal of Economics 123.2 (2008): 577-619.
<http://www.people.fas.harvard.edu/~jschwartz/papers/coarse.pdf>

Theory and Experiment in the Analysis of Strategic Interaction

Vincent P. Crawford
Advances in Behavioral Economics, p. 344 (Chapter 12).

Promises and Partnerships

Gary Charness and Martin Dufwenberg
Econometrica, 74 (2006): 1579-1601
<http://www.u.arizona.edu/~martind1/Papers-Documents/pap.pdf>

Obviously Strategy-Proof Mechanisms

Shengwu Li
Working Paper, 2016
<http://stanford.edu/~shengwu/>

Guest Speaker:

Kristof Madarasz, *London School of Economics*

“Information Projection”

https://mpa.ub.uni-muenchen.de/38612/1/MPRA_paper_38612.pdf

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Week 8, May 18th: Noisy Cognition, Attention, and Memory

***Modeling Imprecision in Perception, Valuation, and Choice**

Michael Woodford

Annual Review of Economics, (2020)

http://blogs.cuit.columbia.edu/mw2230/files/2020/07/AREcon_noise.pdf

Behavioral Inattention

Xavier Gabaix

Handbook of Behavioral Economics, (2018)

https://scholar.harvard.edu/files/xgabaix/files/behavioral_inattention.pdf

Contextual Inference in Markets: On the Informational Content of Product Lines

Emir Kamenica

American Economic Review 98.5 (2008): 2127-149.

<http://www.jstor.org/stable/29730164>

Memory and Representativeness

Pedro Bordalo, Katie Coffman, Nicola Gennaioli, Frederik Schwerter, and Andrei Shleifer

Psychological Review, (2020)

https://www.dropbox.com/s/kiyhfmleonzp19/memory_and_representativeness_01.pdf?dl=0

The Dynamics of Motivated Beliefs

Florian Zimmermann

American Economic Review, (2020)

<https://docs.google.com/viewer?a=v&pid=sites&srcid=ZGVmYXVsdGRvbWFpbnxly29uZmxvcmlhbnppbW1lcm1hbm58Z3g6NzJjMDkxNGY0YWJiYzc5Ng>

Guest Speaker:

Cary Frydman, *University of Southern California*

“Efficient Coding and Risky Choice” (with Lawrence Jin)

<https://docs.google.com/viewer?a=v&pid=sites&srcid=ZGVmYXVsdGRvbWFpbnxjYXJ5ZnJ5ZG1hbnxneDoxY2I3NmRmZDdlNzM5MjRm>

Week 9, May 25th: Behavioral Finance

***Prospect Theory and Stock Market Anomalies**

Nick Barberis, Lawrence Jin, and Baolian Wang
<https://nicholasbarberis.github.io/rt30c.pdf>

***Behavioral Finance**

David Hirshleifer

Annual Review of Financial Economics, 2015

<https://cpb-us-e2.wpmucdn.com/sites.uci.edu/dist/c/362/files/2015/01/SSRN-id2480892.pdf>

***The Behavior of Individual Investors**

Brad Barber and Terrance Odean

Handbook of the Economics of Finance, 2013

<https://faculty.haas.berkeley.edu/odean/papers%20current%20versions/behavior%20of%20individual%20investors.pdf>

Selling Fast and Buying Slow: Heuristics and Trading Performance of Institutional Investors

Klakow Akepanidaworn, Rick Di Mascio, Alex Imas and Lawrence Schmidt

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3301277

Can the Market Multiply and Divide? Non Proportional Thinking in Financial Markets

Kelly Shue and Richard Townsend

Journal of Finance, 2020

<https://sites.google.com/site/kellyshue/files/CantheMarketMultiplyandDivide.pdf?attredirects=0>

A Tough Act to Follow: Contrast Effects in Financial Markets

Sam Hartzmark and Kelly Shue

Journal of Finance, 2018

<https://sites.google.com/site/kellyshue/files/A%20Tough%20Act%20to%20Follow%20-%20Contrast%20Effects%20in%20Financial%20Markets.pdf?attredirects=0>

Guest Speaker:

Sam Hartzmark, *Booth School of Business*

Week 10, June 1st: Behavioral IO, Incentives and Nudging

***Bounded Rationality in Industrial Organization**

Glenn Ellison

Advances in Economics and Econometrics: Theory and Applications, Ninth World Congress, Volume II (2006).

<http://www.globalsepri.org/UploadPhotos/2008912173543855.pdf>

***Behavioral Economics and Psychology of Incentives**

Emir Kamenica

Annual Review of Economics, forthcoming.

<http://faculty.chicagobooth.edu/emir.kamenica/documents/behavioralIncentives.pdf>

***Libertarian Paternalism**

Richard H. Thaler and Cass R. Sunstein

American Economic Review P&P, 93 (2003): 175-179

A Fine is a Price

Uri Gneezy and Aldo Rustichini

The Journal of Legal Studies 29.1 (2000): 1.

<http://www.jstor.org/stable/724635>

Do Workers Work More if Wages are High? Evidence from a Randomized Field Experiment.

Ernst Fehr and Lorenz Goette

American Economic Review, 97(1), 298-317

Intrinsic and Extrinsic Motivation

Roland Bénabou and Jean Tirole

Review of Economic Studies 70.3 (2003): 489-520.

<http://onlinelibrary.wiley.com/doi/10.1111/1467-937X.00253/full>

Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets

Xavier Gabaix and David Laibson

The Quarterly Journal of Economics 121.2 (2006): 505-40.

<http://qje.oxfordjournals.org/content/121/2/505.full.pdf+html>

When and Why Incentives (Don't) Work to Modify Behavior

Uri Gneezy, Stephan Meier, and Pedro Rey-Biel, *Journal of Economic Perspectives*—Volume 25, Number 4—Fall 2011—Pages 191–210

Large Stakes and Big Mistakes

Dan Ariely, Uri Gneezy, George Loewenstein, and Nina Mazar

Review of Economic Studies 76.2 (2009): 451-69.

<http://www.jstor.org/stable/40247610>

Man's Search for Meaning; The Case of Legos

Dan Ariely, Emir Kamenica, and Drazen Prelec

Journal of Economic Behavior and Organization, 67.3 (2008): 671-77.

<http://faculty.chicagobooth.edu/emir.kamenica/documents/meaning.pdf>

Pay, Reference Points, and Police Performance.

Alex Mas

Quarterly Journal of Economics, 121(3), 783-821

Bounded Rationality and Industrial Organization

Ran Spiegler

New York: Oxford University Press, 2011.

Contract Design and Self-control: Theory and Evidence

Stefano DellaVigna and Ulrike Malmendier

The Quarterly Journal of Economics 119.2 (2004): 353-402.

<http://gsbapps.stanford.edu/researchpapers/library/RP1801.pdf>

The Relevance of Quasi Rationality in Competitive Markets

Thomas Russell and Richard Thaler

The American Economic Review 75.5 (1985), p. 1071-1082.

(Reprinted and corrected version from *Quasi Rational Economics*)

<http://www.jstor.org/stable/1818646>

Does Market Experience Eliminate Market Anomalies?

John List

The Quarterly Journal of Economics 118.1 (2003): 41-71.

<http://www.jstor.org/stable/25053898>

Guest Speaker:

Richard Thaler, *Booth School of Business*