Economics 7585
Behavioral Economics II

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Course Blackboard Site

There is a Blackboard site for this course, and you should enroll in this site (to do so, go to http://blackboard.cornell.edu/). This site will contain announcements, links for readings, and other useful information. I will also post the slides that I use in class. (I will try to post these in advance but may not always succeed.)

Overview:

This course will provide an overview of the emerging field of behavioral economics (a.k.a. “psychology and economics”). Behavioral economics attempts to incorporate more realistic assumptions into economics, in particular assumptions motivated by research in psychology, sociology, and related fields. Our goal is both to better understand the behaviors we see in the world and to improve our analyses of welfare and policy.

The history of behavioral economics can be roughly categorized into three waves. The early literature focused on “anomalies,” observed behaviors that were inconsistent with the standard economic model. This literature identified anomalies, primarily through experiments but also in field data, as well as proposed some simple alternative theories or assumptions that might explain those anomalies. Beginning in the late 1990s, there was a surge in behavioral economic theory, which starts by taking well-motivated alternative assumptions as given, and then focuses on the implications of those alternative assumptions in economic environments. Recently, there has been a surge in empirical behavioral economics, which attempts to test the usefulness of behavioral economic theories on economic field data.

In this course, we will discuss all three types of research. We will review evidence on how human behavior systematically departs from the standard assumptions of economics. We will then discuss how one might go about formally modeling alternative assumptions about human behavior, and what some of the implications of these alternative assumptions might be. Finally, we will examine attempts to empirically test these theories. Throughout, we will not merely point out problems with traditional economic assumptions; rather we will attempt to identify alternative assumptions that are more realistic, and investigate whether these alternative assumptions can be usefully incorporated into mainstream economics.
Prerequisites

I will proceed under the assumption that everyone has taken and understood microeconomics and statistics at least at the advanced undergraduate (and ideally first-year graduate) level.

Course Requirements:

For those students who are taking the course for credit, there are two requirements: (i) you must complete three referee reports (50% of your grade), and (ii) you must write a research proposal (the other 50% of your grade).

Referee Reports:

Over the course of the semester, there will be three papers assigned for you to referee. Each report is expected to look like an actual referee report for a journal; that is, it should summarize the paper, evaluate its strengths and weaknesses, and make suggestions to the author about how to improve the research. You should feel free to discuss the assigned papers with your fellow students, and in fact are encouraged to do so. However, after discussing the papers, you must write out your referee reports on your own. (Directly copying someone else’s referee report will be considered cheating.) We will discuss more details about how to write a referee report and how I will be grading it over the course of the semester.

You will have plenty of time to complete the referee reports, and so I will expect them to be clear and concise — and I will indeed grade on both dimensions. Toward this end, I suggest you outline the main points of your report before you write it up.

Research Proposal:

You must write a “research proposal” that is due on Friday, December 20.

The goal of the research proposal is to generate a research idea that might lead to a research project of your own. The proposal should look like a grant proposal; that is, it should motivate the research question and lay out your plan for conducting the research, even though you won’t actually have any results to report. The proposal can be no longer than 10 pages. We will discuss more details of the format and content of the proposal over the course of the semester.

You are free to work jointly with other students on your proposal, in which case you will all receive the same grade for it.
**Topics and Readings:**

Behavioral economics is a dynamic and constantly expanding field. We will focus on a subset of the field. We will omit the two of the most well-developed topics in the field—“prospect theory” and its descendents, and intertemporal choice—which are covered in Economics 7580.

The primary reading for the course will be journal articles and unpublished papers. In the pages which follow, I provide a reading list that limits attention to the main topics I plan to discuss in class. The * papers are the ones I currently plan to discuss most. My plans will certainly change as the semester progresses, so check the Blackboard site for an updated syllabus on a regular basis; the syllabus will be dated so that you can see if you have the latest.

I am aware of one undergraduate textbook that may be useful for brush up on relevant microeconomics, *A Course in Behavioral Economics* by Erik Angner. At the graduate level, the best I can do is to refer you to some edited volumes (collections of papers). The following volumes are quite good, and many of the papers on the reading list appear in one or more of them.


Reading List

**Topic 0: Behavioral Economics (9/5)**


**Topic I: Fairness and Social Preferences (9/5, 9/12, 9/19, 9/26 [will reschedule], 10/3)**


**Ib: Further Lab Evidence, and Models of Social Preferences**


**Ic: Field Evidence on Social Preferences**


**Id: New Directions for Social Preferences: Theory and Evidence**


**Topic II: Experimental Design (10/10 [will reschedule], 10/17)**


**Topic III: Identity (10/24, 10/31)**


Wei, Thomas E. (2009). “Stereotype Threat, Gender, and Math Performance: Evidence from the National Assessment of Educational Progress.” Harvard University manuscript.

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**Topic IV: Judgment under Uncertainty (Heuristics and Biases) (10/31, 11/7 [will reschedule], 11/14)**


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**Topic V: Behavioral Welfare Economics and Happiness (11/21, 12/5)**


