MGT 854

BEHAVIORAL ECONOMICS:
THE PSYCHOLOGY AND BEHAVIOR OF INDIVIDUALS, ORGANIZATIONS, AND MARKETS

2015 (Spring-1)

Monday & Wednesday
Evans Hall 2200

Section 1: 10:10am – 11:30am
Section 2: 1:00pm – 2:20pm
Section 3: 2:40pm – 4:00pm

Professors:
Florian Ederer
Office: Evans Hall 3469
florian.ederer@yale.edu

Shane Frederick
Office: Evans Hall 5518
shane.frederick@yale.edu

Teaching Assistants:
Rachel Cooper, Robert Kimball, Rachel Levy, Dan Ostermueller, Eugene Wong

Course Description

In this class, we will attempt to reunite the disciplines of psychology and economics, which began drifting apart about a century ago. In particular, we will consider how predictions of economic behavior differ when several assumptions that simplify economic models are replaced with psychologically realistic assumptions based on empirical observations from the lab and from the world. We will pay special attention to the way in which these modified assumptions affect markets, management, and public policy.

Course Materials

There are two required books (together they cost less than $29):

- Nudge
- Thinking Fast and Slow

The remaining readings will either be posted online or handed out in class.
Grading
Final grades will be based on the following:

1) Class Participation 20%
2) Homework 30%
3) Final Exam 50%

Schedule

<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Topic</th>
<th>Professor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mon, Jan. 12th</td>
<td>Introduction to Behavioral Economics</td>
<td>Frederick and Ederer</td>
</tr>
<tr>
<td>2</td>
<td>Wed, Jan. 14th</td>
<td>Heuristics and Biases</td>
<td>Frederick</td>
</tr>
<tr>
<td>3</td>
<td>Fri, Jan. 16th</td>
<td>Markets That Move (and are moved by) Beliefs</td>
<td>Ederer</td>
</tr>
<tr>
<td>4</td>
<td>Wed, Jan. 21st</td>
<td>Risk Preferences</td>
<td>Frederick</td>
</tr>
<tr>
<td>5</td>
<td>Mon, Jan. 26th</td>
<td>Prospect Theory</td>
<td>Frederick</td>
</tr>
<tr>
<td>6</td>
<td>Wed, Jan. 28th</td>
<td>Applications of Prospect Theory</td>
<td>Ederer</td>
</tr>
<tr>
<td>7</td>
<td>Mon, Feb. 2nd</td>
<td>Time Preferences</td>
<td>Frederick</td>
</tr>
<tr>
<td>8</td>
<td>Wed, Feb. 4th</td>
<td>Markets for Self-Control and Safety</td>
<td>Ederer</td>
</tr>
<tr>
<td>9</td>
<td>Mon, Feb. 9th</td>
<td>Markets with Consumer Inattention</td>
<td>Ederer</td>
</tr>
<tr>
<td>10</td>
<td>Wed, Feb. 11th</td>
<td>Changing Behavior</td>
<td>Frederick</td>
</tr>
<tr>
<td>11</td>
<td>Mon, Feb. 16th</td>
<td>Peer Effects and Status Concerns</td>
<td>Ederer</td>
</tr>
<tr>
<td>12</td>
<td>Wed, Feb. 18th</td>
<td>Gift Exchange and Taking Data Seriously</td>
<td>Ederer and Frederick</td>
</tr>
<tr>
<td>13</td>
<td>Mon, Feb. 23rd</td>
<td>Final Exam (in class)</td>
<td></td>
</tr>
</tbody>
</table>
Readings

- **Class 1: INTRODUCTION TO BEHAVIORAL ECONOMICS**
  - No readings for first class.

- **Class 2: HEURISTICS AND BIASES**

- **Class 3: MARKETS THAT MOVE (AND ARE MOVED BY) BELIEFS**

- **Class 4: RISK PREFERENCES**

- **Class 5: PROSPECT THEORY**

- **Class 6: APPLICATIONS OF PROSPECT THEORY**
  - Barberis, N. (2013): “Thirty Years of Prospect Theory in Economics: A Review and Assessment,” *Journal of Economic Perspectives*, 27(1): 173-196. (**NOTE:** Skip the section on Finance as this will be discussed extensively in Nick Barberis’s Behavioral Finance class.)

- **Class 7: TIME PREFERENCE AND DYNAMIC (IN)CONSISTENCY**
  - **NOTE:** Homework 1 due at the beginning of class.

- **Class 8: MARKETS THAT CAPITALIZE ON LIMITS OF SELF-CONTROL**


Class 9: SHROUDED PRICES: MARKETS THAT EXPLOIT CONSUMER INATTENTION


“Facts about the Title Insurance Market,” Wikipedia.

Class 10: CHANGING BEHAVIOR: INCENTIVES AND NUDGES

Nudge, Chapters 1-6. (NOTE: Homework 2 due at the beginning of class.)

Class 11: PEER EFFECTS AND STATUS CONCERNS


Class 12: GIFT EXCHANGE AND TAKING DATA SERIOUSLY

Esteves-Sorenson, C., and R. Macera (2014): “Gift Exchange in the Workplace: Addressing the Conflicting Evidence with a Careful Test,” Working Paper. (NOTE: Focus on Section 1 and 2, the rest is optional.)


Class 13: FINAL EXAM (in class)