Behavioral economics incorporates insights from other social sciences, such as psychology and sociology, into economic models, and attempts to explain anomalies that defy standard economic analysis. Institutional economics is the study of the evolution of economic organizations, laws, contracts, and customs as part of the historical and continuing process of economic development. Behavioral economics and institutional economics are naturally treated together, since so much of the logic and design of economic institutions has to do with complexities of human behavior. Topics include economic fluctuations and speculation, herd behavior, attitudes towards risk, money illusion, involuntary unemployment, saving, investment, poverty, identity, religion, trust, risk management, social welfare institutions, private risk management institutions, institutions to foster economic development.

Course Requirements: midterm exam, take-home final exam of short essay form.

Dates shown are subject to change. There are six items to purchase; three at Yale Bookstore or Amazon


• George A. Akerlof and Robert J. Shiller, *Phishing for Phools: The Economics of Manipulation and Deception* Princeton University Press 2015 ($18.60 Amazon hardcover, $14.72 Kindle) **This is a new book and not available until September 15, 2015.**


All other important readings can be accessed by clicking here. Many links rely on Yale subscriptions and so they will not work on a non-Yale computer. Reserve books are in Social Science Library. Other relevant online readings can be found on my [web site](http://www.yale.edu). Our workshops in Behavioral Finance and Macroeconomics and Individual Decision Making, Schmid's list of reading lists in institutional economics also have additional readings.

* Indicates required reading

1. INTRODUCTION AND METHODOLOGY  
   *Sept 2, 2015*


*Thaler and Sunstein, Introduction, Chapter 4 "When Do We Need a Nudge?, Chapter 5, “Choice Architecture*

**Part I: Theory of Behavioral Economics**

2. Confidence


*Thaler & Sunstein, Chapter 1, “Biases and Blunders”


3. Fairness, Inequality

*Sen, Amartya, *Poverty and Famines: An Essay on Entitlement and Deprivation*, Oxford University Press, 1983, Chapter 1, Also on RESERVE

*Kahneman, pp. 305-8.


4. Epidemics


*Thaler & Sunstein, Chapter 3, “Following the Herd”

5. Market Society, Civil Society and Social Movements: Phishing Equilibrium


6. Prospect Theory

*Kahneman, Chapter 26, pp. 278-99

Kahneman, Daniel, and Amos Tversky, “Prospect Theory,” Econometrica 1979, also Appendix A of Thinking Fast and Slow


7. Neuroeconomics

*Society for Neuroscience, Brain Facts: A Primer on the Brain and Nervous System, pp. 4-9.


8. Religion

Part II Applications of the Theory: Answering Some Basic Questions

9. Why Do Economies Fall into Depression?

*Phishing for Phools*, Chapter 9, bankruptcy for Profit, Chapter 10, Michael Milken Phishes with Junk Bonds as Bait


10. Why Are Some People Unable to Find a Job?

*Animal Spirits*, Chapter 8 “Why Are Some People Unable to Find a Job?”


11. Why Are There Problems with Borrowing, Collateral, Repurchase?


12. Why Do Central Bankers Have Power over the Economy?

*Animal Spirits*, Chapter 4, “Money Illusion,” Chapter 7 “Why Do Central Bankers Have Power over the Economy, Insofar as They Do?”


Midterm Exam

13. Why Does Inflation Bring Down Unemployment?

*Animal Spirits, Chapter 9 “Why is there a Tradeoff between Inflation and Unemployment in the Long Run?”

*Reinhart and Rogoff, Chapter 12, “Inflation and Modern Currency Crashes” RESERVE


14. Why Do People Often Under-save?

*Animal Spirits, Chapter 10 “Why is Saving for the Future so Arbitrary?

*Phishing for Phools, Chapter 1, “Temptation Strews our Path”

15. How Does Civil Society Combat Phishing for Phools?

*Phishing for Phools, Chapter 11, “The Resistance and Its Heroes

16. Why Do News Media Sometimes Fail Us?


17. Why Do Financial Markets Boom and Crash?

*Phishing for Phools, Chapter Two, Reputation Mining and Financial Crisis

*Animal Spirits, Chapter 11 “Why Are Financial Prices and Corporate Investments so Volatile?”

*Thaler and Sunstein, Chapter 7, “Naïve Investing”

18. Why Is Efficient Markets Theory a Half Truth?
19. Why Do Real Estate Markets Go through Cycles?

*Animal Spirits,* Chapter 12 “Why Do Real Estate Markets Go through Cycles?”

*Phishing for Phools* Chapter 4 Ripoffs Involving Cars, Houses and Credit Cards

20. Why Does Poverty Persist amidst Economic Growth?

*Animal Spirits,* Chapter 13, "Why Is There Special Poverty among Minorities?"


Part III: Institutional Design

21 Making Government Social Insurance Work to Reduce Inequality

*Thaler and Sunstein, chapters 8, 9, 11, 12

22 Regulation and Nudges

*Thaler and Sunstein, Chapter 8, "Credit Markets," Chapter 9 "Privatizing Social Security Smorgasbord Style"


23 Encouraging Saving, Pensions

*Thaler and Sunstein Chapter 6 “Save more Tomorrow”

24 Democratizing Insurance and Finance


25 Development and Dynamism


*Reinhart and Rogoff, This Time Is Different, Chapter 17, "Reflections on Early Warnings, Graduation, Policy Responses, and the Foibles of Human Nature"


**FINAL EXAM Take home 24-hour, any time within a week shortly after end of classes in December**

* Indicates required reading
OPTIONAL SUGGESTED READINGS

Introduction and Methodology: Macroeconomic Theory and the Current Crisis


Wilson, E. O. Consilience: The Unity of Knowledge Knopf, 1998 RESERVE


Popper, Karl R. The Logic of Scientific Discovery Section 1 and Section 20, New York, Science Editions, 1961. RESERVE


Green, Donald and Ian Shapiro, Pathologies of Rational Choice Theory: A Critique of Applications in Political Science, New Haven: Yale University Press, 1996.

Part I: Theory of Behavioral Economics

Confidence

Reinhart and Rogoff, *This Time Is Different* "Preamble: Some Initial Intuition on Financial Fragility and the Fickle Nature of Confidence," "The This-Time-Is-Different Syndrome" RESERVE


Franklin, Benjamin, "Information to Those who Would Remove to America," *The Boston Magazine*, October 1784.


Fairness


Epidemics


Market Society, Civil Society and Social MovementsPhishing for Phools
Aristotle, *Politics*, Book I (search for term civil society)

Ferguson, Adam, “An Essay on the History of Civil Society” 1819


Polanyi, Karl, *The Great Transformation*


Lonkila, Markku, “The Importance of Work-Related Ties in Post-Soviet Russia: The Role of Co-Workers in the Personal Support Networks in St. Petersburg and Helsinki

**Prospect Theory**


**Neuroscience**


**Religion**


Part II Applications of the Theory: Answering Some Basic Questions

Why Do Economies Fall into Depression?


Why Are Some People Unable to Find a Job?
Louis Uchitelle, The Disposable American: Layoffs and their Consequences


Why Are There Problems with Borrowing, Collateral, Repurchase?


Why Do Central Bankers Have Power over the Economy?


Why Does Inflation Bring Down Unemployment?

Fauvel, Yvon, Alain Guay, and Alain Paquet, "What Has the U.S. Phillips Curve Been Up To?" unpublished paper, University of Quebec at Montreal, 2002.


Why Do Financial Markets Boom and Crash?


Why is Information Asymmetry Really a Problem?

Why Is Efficient Markets Theory a Half-Truth?


Williamson, Oliver, Markets and Hierarchies: Analysis and Antitrust Implications, Free Press, 1983. RESERVE North, Chapters 9, 10 and 11. RESERVE


Why Do Real Estate Markets Go through Cycles?

Shiller, Robert, Subprime Solution Chapters 2, 3, 4 RESERVE


Why Does Poverty Persist amidst Economic Growth?


Sachs, Jeffrey, The End of Poverty, Penguin, 2005, Excerpt (Chapter one). RESERVE

Part III: Institutional Design

Making Government Social Insurance Work to Reduce Inequality

Moss, David, When All Else Fails: Government as the Ultimate Risk Manager Harvard University Press, 2004. RESERVE


**Regulation and Nudges**

Friedman, Milton, *Capitalism and Freedom* 1962

Peltzman, Sam, "The Economic Theory of Regulation after a Decade of Deregulation,” Brookings Papers on Economic Activity, 1989

**Democratizing Insurance and Finance**


Squam Lake Working Group, "Credit Default Swaps, Clearinghouses and Exchanges" 2009.


**Development and Dynamism**
Danny Rodrik, *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* 2008 Chapter 2 (Growth Diagnostics) and Chapter 3 (Synthesis: A Practical Approach to Growth Strategies) RESERVE


Phelps, Edmund, "Economic Underperformance in Continental Europe: A Prospering Economy Runs on the Dynamism from its Economic Institutions"


Schumpeter, Joseph, *Capitalism, Socialism and Democracy* Perennial 1962. [1942]

