

PPE 160/PSYC 165

Behavioral Economics and Psychology, Fall 2007

TR 3 - 4:30, McNeil Building 285
Professor Jason Dana (danajd@sas.upenn.edu)
Office: C17A Solomon Labs
Office Hours by appointment (I check email often and am quite flexible)

Overview and Policies

This course applies psychological research to microeconomic theory, and considers extensions to the standard theory that accommodate human limitations and complications. In three different sections, the effects of limited cognitive capacities, willpower, and self-interest will be considered. In each section, we will review assumptions common to economic approaches to some problem, discuss empirical evidence that is at variance with these assumptions, and introduce a behavioral model that accommodates the evidence.

Grades will be based on a weighted sum of three examinations (25% each) – one for each section - and three assignments (5% for the first two, 15% for the final assignment, described below). The questions on assignments and exams will often be quantitative in nature, just as they would be in a microeconomics course, though they will not require a strong background in mathematics. I will not grade attendance, though it may help influence a truly borderline case.

This course has a page in the blackboard system. All course materials (e.g. readings, lectures, and assignments) will be posted there, including this syllabus. The syllabus is subject to change (I will try to announce changes); please check online for the current version if you have questions.

Reading

There is no textbook for the course. I will post articles for download on blackboard to accompany several of the topics, indexed by author last name on the schedule. I will be sure to cover all key material in lectures, i.e. you will not be tested on material in the readings unless it is covered in class. However, the readings will be important in augmenting your understanding of the material.

Lecture Schedule

Here is the lecture schedule. Supplemental readings are indexed by author last name and will be available for download in blackboard under the course documents section. Slides for each lecture will also be posted online. If possible, they will be posted prior to class should you wish to print them before lecture. However, if you print them, wait as close

to the last minute as you can in case of revisions. The slides are not intended to be a complete account of what I will cover in lecture.

- 9/6 Review course policies, Introduction
- 9/11 Introduction (Mullainathan & Thaler; Rabin)
- 9/13 Review of Expected Utility, Game Theory (Baron)
BOUNDED RATIONALITY
- 9/18 Prospect Theory (Kahneman & Tversky)
- 9/20 Prospect Theory cont'd. (Rabin b, Camerer)
- 9/25 more non-EU choice
- 9/27 Triangle diagrams, regret
- 10/2 Well-being
- 10/4 Prediction Markets (Wolfers & Zitzewitz); **assignment 1 due tomorrow**
- 10/9 Wrap-up, review
- 10/11 **Exam 1**
- 10/16 NO CLASS – FALL BREAK
BOUNDED WILLPOWER
- 10/18 Intertemporal Choice (Loewenstein & Prelec; Frederick et al)
- 10/23 Hyperbolic Discounting (O'Donohue & Rabin)
- 10/25 Mental Accounting (Thaler)
- 10/30 Mental Accounting cont'd.
- 11/1 Behavioral Finance and Savings
- 11/6 Behavioral Finance and Savings cont'd.; **assignment 2**
- 11/8 Intro to bounded selfishness, review for bounded willpower exam; **submit ideas for assignment 3**
BOUNDED SELFISHNESS
- 11/13 **Exam 2**
- 11/15 Fairness as a constraint on profit (Kahneman et al, Plasma Inc case)
- 11/20 Dictator and Ultimatum games (Henrich et al)
- 11/22 NO CLASS – THANKSGIVING BREAK
- 11/27 Social preferences models
- 11/29 Social dilemmas
- 12/4 Moral heuristics
- 12/6 **Exam 3**
- 12/13 **assignment 3**

Assignment 3

Each student must complete a “behavioral economic naturalist” writing assignment (a la Robert Frank – see “The Economic Naturalist”), due at the end of the semester. The assignment is to apply a principle, or principles, discussed in the course to pose and answer an interesting question about some pattern of events or behavior that you have personally observed. Examples of questions from Frank’s book (submitted by students) include: “Why do the keypad buttons on drive-up cash machines have Braille dots?,” “Why do color photographs sell for less than black-and-white ones?,” and “Why is it more expensive to transfer funds between banks electronically than send a check through

the mail?" More examples and details will be available on blackboard. Of course, your questions and answer should appeal to behavioral principles. Your essay will be limited to 500 words and should be written to be intelligible to someone without formal training in economics, i.e. it should be non-technical. Although the assignment is short, it will take some thought. You should be looking for topics in your daily life throughout the semester and should submit your idea to me well in advance of the due date.