

ECONOMICS 352 & 452: BEHAVIORAL ECONOMICS

Spring 2023

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Instructor:	Felipe A. Araujo	Time:	Tu-Th 12:10-1:25pm
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Course Page The official course page is on [Course Site](#), where I will post lecture materials, required readings, assignments, as well as all communication.

Office Hours Tu & Th 2:30-4 PM, or by appointment, at RBC 266. You're encouraged to come to office hours if you have questions or just want to discuss some topic further.

Course Overview Behavioral Economics is a sub-field of economics which incorporates insights from Psychology and other disciplines into economics. From its start a couple of decades ago, it has grown to become one of the major topics of research in economics. This course provides an introduction to the field, covering both theory and applications. Students will participate in small experiments in class and are expected to actively take part in classroom discussions of the relevant papers. Covered topics include (i) preferences (present bias, reference dependence, and social preferences), (ii) beliefs (overconfidence, projection bias, and attribution bias), and (iii) decision-making (mental accounting, attention, and framing), as well as (iv) financial and labor market consequences of such deviations. Note that one semester it not nearly enough to cover all of Behavioral Economics and so many interesting topics were left out.

Prerequisites A complete understanding of the material require a solid grasp of mainstream economics at the level of an intermediate micro class. Knowledge of statistics and basic econometrics is also needed. Advanced mathematics is not required, though some of the models are math intensive.

Lecture materials There is no textbook for this class. [Camerer, Loewenstein and Rabin \(2004\)](#) is a suggested reading. The course will be structured as seminar-style discussions of published papers. Lecture notes will serve as complements and will sometimes contain original material and extensions. Required and suggested readings will be made available on [Course Site](#). Finally, we will use the [MobLab](#) app to run experiments and surveys in the classroom. The semester-long subscription costs \$25. Instructions for how to sign-up are on [Course Site](#).

Participation Given the seminar-like structure of the class, students are expected to play an active role in class. Students should bring their questions on each of the required readings, as I plan to devote the last 10-20 minutes of each class to open discussion. Moreover, about a third of the classes will start with a short quiz on the required readings. The quiz may include that day's reading as well as other recent required papers. The questions are intended to make sure students read and comprehended the main message of the paper and will count towards the course grade (the lowest quiz grade will be dropped).

Essay Assignment Every other week students will answer an essay question about that week's readings. The question will be related to the topics covered and also require some original thinking. Please answer the questions in a concise (at most two pages) and well thought-out essay. Your answers should be typed and not hand-written (12 point font, 1" margins, and 1.5 spacing). As with the quiz assignment, the lowest essay grade will be dropped.

Student Presentations Students will present a recently published or working paper on a covered topic. Students might select the paper from that topic's suggested readings or else propose a different one. In the latter case, students should contact me prior to deciding on the paper.

Final Project The final project can be either an (i) original paper on a topic of the student's choice or (ii) a critical review of one of the *suggested* readings accompanied by a proposed extension. For option (i), the paper should be structured as a standard research article (introduction, literature review, methods, results, and discussion/conclusion). Actual data collection and analysis is not required; if there is no data, the methods section should contain a detailed plan of how to obtain and analyze data to answer the research question. As for option (ii), the review should assess the paper's main contribution, its strengths and weaknesses, and propose an extension. Both types of final projects should be between 10-15 pages long, not counting references or title pages. PhD students *have* to go with option (i).

Year of Learning The College of Business' year of learning theme for 2022-2023 is "Limitations of Technology? Frictions versus Leverage". Even though we don't have a specific topic devoted to it, I will add relevant discussions throughout the semester. Suggestions from the students are also welcomed. You can read more about the year of learning topic from this [interview](#) with Dean Georgette Phillips.

Grading Policy Grades will be based on participation quizzes, essay questions, paper presentations, and the final project. The weights used to compute the weighted average score, based on which a letter grade will be determined, and the relevant dates, are listed below.

Grading components, dates, and weights

Grade Component	Date	Weight
Participation	Almost-weekly quizzes	30%
Essay Questions	Due on Tuesdays	20%
Paper Presentation	TBA	20%
Final Project	May 17, 2023 @ 12pm	30%

Numerical and letter grades

Score	Letter Grade
[92, 100]	A
[90, 92)	A-
[87, 90)	B+
[82, 87)	B
[80, 82)	B-
[77, 80)	C+
[72, 77)	C
[70, 72)	C-
[67, 70)	D+
[62, 67)	D
[60, 62)	D-
[0, 60)	F

Attendance: Even though lecture notes are thorough, the material will be hard to comprehend without attending class and actively participating in the discussions. Moreover, the participation grade will be based on short quizzes at the start of some (around 8) classes and hence only available for those that show up. The quizzes will be easy for everyone that read the required papers and participated in class.

Check I'm glad you're still reading! To verify you have read the entire syllabus, please email me a picture of your favorite Brazilian beach at f.araujo@lehigh.edu, with the subject line "BE: beach picture".

Tutoring The College of Business Undergraduate Programs Office publishes a [grid](#) outlining the various

business tutoring options and times at the beginning of every semester. If you have any questions or concerns about tutoring, please contact Assistant Dean Beth Pelton at bap212@lehigh.edu.

Accommodations for Students with Disabilities: Lehigh University is committed to maintaining an equitable and inclusive community and welcomes students with disabilities into all of the University's educational programs. In order to receive consideration for reasonable accommodations, a student with a disability must contact Disability Support Services (DSS), provide documentation, and participate in an interactive review process. If the documentation supports a request for reasonable accommodations, DSS will provide students with a Letter of Accommodations. Students who are approved for accommodations at Lehigh should share this letter and discuss their accommodations and learning needs with instructors as early in the semester as possible. For more information or to request services, please contact Disability Support Services in person in Williams Hall, Suite 301, via phone at 610-758-4152, via email at indss@lehigh.edu, or online at <https://studentaffairs.lehigh.edu/disabilities>.

Lehigh Student Senate Academic Integrity Statement: "We, the Lehigh University Student Senate, as the standing representative body of all undergraduates, reaffirm the duty and obligation of the students to meet and uphold the highest principles and values of personal, moral and ethical conduct. As partners in our educational community, both students and faculty share the responsibility for promoting the helping to ensure an environment of academic integrity. As such, each student is expected to complete all academic course work in accordance to the standards set forth by the faculty and in compliance with the university's Code of Conduct."

The Principles of Our Equitable Community: Lehigh University endorses [The Principles of Our Equitable Community](#). We expect each member of this class to acknowledge and practice these Principles. Respect for each other and for differing viewpoints is a vital component of the learning environment inside and outside the classroom.

Course Outline and Schedule: The table below details the complete class and assignment schedules as well as the topics covered and the required and suggested readings.

Lectures and Assignment: Topics and Schedule

Topics	Readings & Assignment
Topic 1	Introduction to Behavioral Economics
	<u>Required reading:</u> Camerer and Loewenstein (2011) [pp. 1-15]
01/24	<u>Suggested reading:</u> Mullainathan and Thaler (2000) ; Thaler (2016) ; Falk and Heckman (2009)
	<u>Assignment:</u> N/A
	<u>Required reading:</u> Loewenstein (1999) ; Rabin (2002) [sections I and II]
01/26	<u>Suggested reading:</u> Carter, Greenberg and Walker (2017) ; DellaVigna (2009) ; Simon (1972) ; Rabin (1998, 2013) ; Hertwig and Ortmann (2001)
	<u>Assignment:</u> N/A
Topic 2	Risk Preferences I: Introduction
	<u>Required reading:</u> Rabin and Thaler (2001)
01/31	<u>Suggested reading:</u> Rabin (2000) ; Starmer (2000)
	<u>Assignment:</u> N/A
	<u>Required reading:</u> Sydnor (2010)
02/02	<u>Suggested reading:</u> Pope and Schweitzer (2011)
	<u>Assignment:</u> N/A
Topic 3	Risk Preferences II: Reference-Dependence and Loss Aversion
	<u>Required reading:</u> Kahneman and Tversky (1979) (Part I)
02/07	<u>Suggested reading:</u> Tversky and Kahneman (1992) ; Kőszegi and Rabin (2006) ; Camerer, Babcock, Loewenstein and Thaler (1997) ; Camerer (2011)
	<u>Assignment:</u> N/A
	<u>Required reading:</u> Kahneman and Tversky (1979) (Part II)
02/09	<u>Suggested reading:</u> Camerer and Loewenstein (2011) ; Allen, Dechow, Pope and Wu (2017) ; Abeler, Falk, Goette and Huffman (2011)
	<u>Assignment:</u> N/A
	<u>Required reading:</u> Genesove and Mayer (2001)
02/14	<u>Suggested reading:</u> Camerer and Loewenstein (2011) ; Allen, Dechow, Pope and Wu (2017) ; Abeler, Falk, Goette and Huffman (2011)
	<u>Assignment:</u> Essay I
Topic 4	Time Preferences
	<u>Required reading:</u> Frederick, Loewenstein and O'donoghue (2002) (sections I-V)
02/16	<u>Suggested reading:</u> Loewenstein and Thaler (1989) ; Akerlof (1991)
	<u>Assignment:</u> N/A

02/21	<p><u>Required reading:</u> Frederick, Loewenstein and O'donoghue (2002) (sections I-V); Ariely and Wertenbroch (2002)</p> <p><u>Suggested reading:</u> Read, Frederick, Orsel and Rahman (2005); Imas, Kuhn and Mironova (2021b)</p> <p><u>Assignment:</u> N/A</p>
02/23	<p><u>Required reading:</u> Ariely and Wertenbroch (2002)</p> <p><u>Suggested reading:</u> O'Donoghue and Rabin (2000); DellaVigna and Malmendier (2006); Bisin and Hyndman (2020)</p> <p><u>Assignment:</u> Student presentation I</p>
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Topic 5	Social Preferences
02/28	<p><u>Required reading:</u> Camerer and Thaler (1995)</p> <p><u>Suggested reading:</u> Dawes and Thaler (1988)</p> <p><u>Assignment:</u> Essay II</p>
03/02	<p><u>Required reading:</u> Bandiera, Barankay and Rasul (2005)</p> <p><u>Suggested reading:</u> Gneezy and List (2006); Lazear, Malmendier and Weber (2006); Bauer, Ruof and Smeets (2021)</p> <p><u>Assignment:</u> N/A</p>
03/07	<p><u>Required reading:</u> Dana, Weber and Kuang (2007)</p> <p><u>Suggested reading:</u> Andreoni and Bernheim (2009); Exley (2016); Dana, Cain and Dawes (2006); Gneezy, Gneezy, Nelson and Brown (2010)</p> <p><u>Assignment:</u> N/A</p>
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Topic 6	Heuristics and Biases
03/09	<p><u>Required reading:</u> Tversky and Kahneman (1974)</p> <p><u>Suggested reading:</u> Camerer and Loewenstein (2011)</p> <p><u>Assignment:</u> Student presentation II</p>
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Topic δ	Spring Break
03/14	<p><u>Required reading:</u> None</p> <p><u>Suggested reading:</u> A good spy novel</p>
03/16	<p><u>Required reading:</u> None</p> <p><u>Suggested reading:</u> Gossip magazines</p>
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Topic 7	Projection and Attribution Bias
03/21	<p><u>Required reading:</u> Haggag, Pope, Bryant-Lees and Bos (2019)</p> <p><u>Suggested reading:</u> Conlin, O'Donoghue and Vogelsang (2007)</p> <p><u>Assignment:</u> Essay III</p>
03/23	<p><u>Required reading:</u> Loewenstein, O'Donoghue and Rabin (2003)</p> <p><u>Suggested reading:</u> Busse, Pope, Pope and Silva-Risso (2015)</p> <p><u>Assignment:</u> Student presentation III</p>

Topic 8	Incentives and Labor Markets
	<u>Required reading:</u> Fehr, Kirchler, Weichbold and Gächter (1998)
03/28	<u>Suggested reading:</u> Gneezy and Rustichini (2011) ; Gneezy, Meier and Rey-Biel (2011)
	<u>Assignment:</u> N/A
	<u>Required reading:</u> Ariely, Gneezy, Loewenstein and Mazar (2009)
03/30	<u>Suggested reading:</u> Bowles and Polania-Reyes (2012) ; Ederer and Manso (2013)
	<u>Assignment:</u> Student presentation IV
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Topic 9	Endowment Effect
	<u>Required reading:</u> Kahneman, Knetsch and Thaler (1990)
04/04	<u>Suggested reading:</u> Kahneman, Knetsch and Thaler (1991) ; Ericson, Fuster et al. (2013) ; Plott and Zeiler (2005, 2007) ; Hartzmark, Hirshman and Imas (2021)
	<u>Assignment:</u> N/A
	<u>Required reading:</u> Chapman, Dean, Ortoleva, Snowberg and Camerer (2023)
04/06	<u>Suggested reading:</u> Hartzmark, Hirshman and Imas (2021)
	<u>Assignment:</u> Student presentation V
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Topic 10	Behavioral Finance
	<u>Required reading:</u> Gneezy and Potters (1997)
04/11	<u>Suggested reading:</u> Benartzi and Thaler (1995) ; Haigh and List (2005)
	<u>Assignment:</u> Essay IV
	<u>Required reading:</u> Odean (1998)
04/13	<u>Suggested reading:</u> Akepanidaworn, Di Mascio, Imas and Schmidt (2021) ; Shefrin and Statman (1985) ; Imas (2016)
	<u>Assignment:</u> Student presentation VI
	<u>Required reading:</u> Lei, Noussair and Plott (2001)
04/18	<u>Suggested reading:</u> Dufwenberg, Lindqvist and Moore (2005) ; Smith, Suchanek and Williams (1988)
	<u>Assignment:</u> N/A
	<u>Required reading:</u> Lei, Noussair and Plott (2001)
04/20	<u>Suggested reading:</u> Dufwenberg, Lindqvist and Moore (2005) ; Smith, Suchanek and Williams (1988)
	<u>Assignment:</u> Essay V (due 05/21)
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Topic 11	Mental Accounting
	<u>Required reading:</u> Thaler (1999) ; Abeler and Marklein (2017)
04/25	<u>Suggested reading:</u> Thaler (1985) ; Imas, Loewenstein and Morewedge (2021a) ; Hastings and Shapiro (2013)
	<u>Assignment:</u> N/A

Topic 12	Framing Effects, Nudging, and Defaults
	<u>Required reading:</u> Madrian and Shea (2001)
04/27	<u>Suggested reading:</u> Chetty, Friedman, Leth-Petersen, Nielsen and Olsen (2014) <u>Assignment:</u> N/A
	<u>Required reading:</u> Thaler and Benartzi (2004)
05/02	<u>Suggested reading:</u> Bertrand, Karlan, Mullainathan, Shafir and Zinman (2010) <u>Assignment:</u> N/A
	<u>Required reading:</u> Johnson and Goldstein (2003)
05/04	<u>Suggested reading:</u> Choi, Laibson, Madrian and Metrick (2003) <u>Assignment:</u> N/A

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