

Behavioral Economics

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Location: Mon / Wed, 5:00p – 6:50p, ROOM CMU 228

Office Hours: MW 2-3pm

Course Description:

This course seeks to incorporate insights from psychology into economic models. We will review established insights from psychology and carefully examine the evidence suggesting individuals systematically depart from traditional economic assumptions. We will modify the classical economic assumptions to be more realistic, write down models that generate sharp and testable predictions, and explore the implications of those models. By the end of the course, students will learn how psychology and economics can be used together to understand human behavior, as well as know how to incorporate behavioral ideas to shape markets and policy.

Prerequisites:

This is an economics course; familiarity with economic concepts, such as utility and choice maximization, is useful. Nonetheless, a technical refresher will be provided around each topic area so that everybody can always follow along.

Attendance:

Class attendance is strongly recommended. Much of the learning will occur during the lectures, and while there are slides that accompany the lectures, it will be difficult to digest them without being at lecture.

Requirements:

1. **Problem Sets:** There will be 2 problem sets assigned during the quarter. You are encouraged to work on them with classmates, but write up the solutions on your own, using your own words and understanding. Each problem set will account for 20% of your final grade. The due dates are below:

	Assigned:	Due:
Problem Set #1	WED, JAN 10 th	WED, JAN 31 st
Problem Set #2	WED, FEB 14 th	WED, MAR 7 th

2. **Midterm:** In-class midterm on Monday, Feb 5th.
3. **Final:** This test will cover the second-half of the course, and will be held on Monday, Mar 12th from 6:30 – 8:20PM

The exams will be closed book. They will be based on slides, lectures, and problem sets. They will be designed to be very passable for those attending lectures, seriously engaging in the problem sets; they will mostly reflect the basic problems from the problem sets.

Grading:

The course grade will be a weighted average of three factors: your average score on the two problem sets (40%),

your midterm score (35%), and your final exam score (35%). The lowest of your three grades will be weighted 10% less than listed above, so to make the weights total to 100%. Except for emergency situations, late problem sets will be heavily penalized (at 40% per day) and you will not be allowed to make up any missed exams.

Grading complaints are considered when there has been a grading error. If you think there has been one, please submit a written petition pointing out the error. All petitions must be received at the start of class following the return of the graded problem set/exams. Note that the entire problem set/exam will be re-graded, and the overall score can go up or down.

For all assignments and exams, the UW Student Conduct Code (WAC 478-120) and Economic Department Policy on Academic Conduct (http://econ.washington.edu/undergrad/academic_conduct) applies.

Students with special needs (disabled students, students athletes and etc.) should send me your documents asap. More information is available online (<http://depts.washington.edu/uwdrs>).

Economics Department's Policy on Academic Conduct:

Academic integrity is the cornerstone of the Department's rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred directly to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary warning, to academic probation, to immediate dismissal for the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. Moreover, a grade of zero can be assigned by the instructor for the course.

Readings:

As the field is relatively new, there is still no good textbook in behavioral economics. The only required reading will be the slides. A list of references will be provided that can be used for supplemental reading by those who are interested in exploring a specific topic more deeply. In addition, if you need another perspective on the material, you can consult the background readings suggested below:

Nick Wilkinson and Matthias Klaes, *An Introduction to Behavioral Economics*.

Richard Thaler and Cass Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness*

Approximate Outline:

Topic	Lectures	Description
Reference-Dependent Preferences	3	Kahneman/Tversky classic experiments; Prospect theory; Market implications: labor supply, marketing, industrial organization.
Choice Over Time	6	Samuelson's exponential-discounting; Self-control and hyperbolic discounting; Harmful substances and government policy; Anxiety, optimism & anticipation; Misperception of utility.

Bounded Rationality

2

Heuristics and biases;
Views of bounded rationality;

Behavioral Game Theory

3

Game theory & behavioral game theory;
Irrational players and equilibrium.

Social Preferences

2

Classic experiments.
“Distributional” and “intention” models.
Labor markets: wage setting and unemployment.
