

Roland Bénabou
320, Bendheim Hall
rbenabou@princeton.edu
Office hours: Monday 4:15-6:15

Fall 2008

WWS 593D - Preliminary syllabus

“Behavioral” Economics / Economics and Psychology

Prerequisites: WWS511c or d; WWS512c; WWS 593c (Game Theory)

This course will explore how economics has recently incorporated a number of insights and findings from psychology and experiments; what it can, in return, bring to the understanding of these phenomena; and examine some of the implications that follow for the workings of markets and policy. Please note that this reading list is (intentionally) very broad, so not all the topics listed below will be covered.

Course requirements: class participation (15%), one take-home assignment (35%) and one final exam (50%).

Useful books (not required):

D. Kahneman and A. Tversky, eds., *Choices, Values, and Frames*. Cambridge: University Press, (2000). Will be referred to as *CVF*.

Camerer, C., Loewenstein, G., and Rabin, M. eds. (2004), *Advances in Behavioral Economics*. Russell Sage Foundation, Princeton, NJ: Princeton University Press. Will be referred to as *CLR*.

Useful surveys:

Della Vigna, S. [Psychology and Economics: Evidence from The Field](#), September 2007

Mullainathan, S. “[Development Economics through the Lens of Psychology](#),” *Proceedings of the Annual Bank Conference on Development Economics*, forthcoming.

Readings: this reading list includes three types of papers: (i) required readings, marked with a * ; (ii) papers which will be presented in class but are not required reading (except sometimes for specific sections which will be flagged as the course proceeds), marked with a □ ; (iii) background or more advanced material, in case you want to know more: all the rest. Please note that there will probably not be time to cover all topics, and that a few of the readings may change along the way.

I. Altruism, Fairness, Reciprocity

A. Surveys

* Colin Camerer and Ernst Fehr (2002) [Measuring Social Norms and Preferences Using Experimental Games: A Guide for Social Scientists](#),

Fehr, E. and Gächter, S. (2000) ["Fairness and Retaliation: The Economics of Reciprocity"](#) *Journal of Economic Perspectives* 14, 159-181. Also as Chapter 18 in *CLR*.

B. Evidence and Models

Fehr, E. and Gächter, S. (2000) [“Cooperation and Punishment in Public Goods Experiments.”](#) *American Economic Review* 90, 980-994.

□ Fehr, E. and Schmidt, K. (1999), [A Theory of Fairness, Competition and Cooperation](#), *Quarterly Journal of Economics* 114, 817-868.

□ Rabin, M. (1993) [Incorporating Fairness into Game Theory and Economics](#), *American Economic Review*, Vol. 83, No. 5., pp. 1281-1302.

C. Applications and Policy

Bewley, T. (1999) *“Why Wages Don't Fall During a Recession,”* [Harvard University Press](#), 1999.

Durante, R., and Putterman, L. (2007) “Preferences for Redistribution and Perception of Fairness: An Experimental Study,” Brown University.

* [Florida Attorney General FAQ Concerning Price Gouging](#)

* Kahneman, D. Knetsch, J. and Thaler, R. (1986) [“Fairness as a Constraint on Profit-Seeking: Entitlements in the Market.”](#) *American Economic Review*, 74(4), 728-741

* Alan B. Krueger & Alexandre Mas, 2004. ["Strikes, Scabs, and Tread Separations: Labor Strife and the Production of Defective Bridgestone/Firestone Tires,"](#) *Journal of Political Economy*,. 112(2), 253-289.

II. Extrinsic incentives, intrinsic motivation, and social norms

A. Surveys

* Frey, B., and R. Jegen (2001) [“Motivation Crowding Theory: A Survey of Empirical Evidence.”](#) *Journal of Economic Survey*, 15(5): 589-611.

* Kreps, D. (1997) [Intrinsic Motivation and Extrinsic Incentives](#), *American Economic Review*, vol. 87, issue 2, pages 359-64.

Meier, S. [“A Survey of Economic Theories and Field Evidence on Pro-Social Behavior”](#) FRB Boston Series, paper no. 06-6 (2006)

B. Evidence and Models

Ariely, D., Bracha, A. and Meier, S. (2007) [“Doing Good or Doing Well? Image Motivation and Monetary Incentives in Behaving Prosocially”](#), Boston FED mimeo, 2007

Bénabou, R. and J. Tirole (2003) ["Intrinsic and Extrinsic Motivation,"](#) *Review of Economic Studies*, 70: 489-520.

□ Bénabou, R. and J. Tirole (2006) ["Incentives and Prosocial Behavior,"](#) *American Economic Review*, 96(5), 1652-1678.

□ Dana, J., Weber, R. and J. Kuang (2007) [“Exploiting Moral Wriggle Room: Experiments Demonstrating an Illusory Preference for Fairness.”](#) *Economic Theory*, 33(1), 67-80.

□ Dana, J., Cain, D.M., and Dawes, R. (2006). [What you don't know won't hurt me: Costly \(but quiet\) exit in a dictator game.](#) *Organizational Behavior and Human Decision Processes*, 100(2), 193-201.

* Falk, A. and Kosfeld, M. (2004) [“The Hidden Cost of Control.”](#) *American Economic Review* 96(5), 1611-1630.

Fehr, E. and Schmidt, K. (2000) [“Fairness, Incentives and Contractual Choices.”](#) *European Economic Review*, 44, 1057-1068.

Fehr, E. and List, J. (2004). [“The Hidden Costs and Returns of Incentives-Trust and Trustworthiness Among CEOs,”](#) *Journal of the European Economic Association*, vol. 2(5), pages 743-771, 09.

* Gneezy, U. & Rustichini, A. (2004). [Incentives, Punishment and Behavior.](#) In CLR, p. 572-589.

Gneezy, U., and A. Rustichini (2000) [“Pay enough or Don't pay at All”](#) *Quarterly Journal of Economics*, 791-810.

Meier, S. [“Do People Behave in Experiments as in the Field? Evidence from Donations”](#) with Matthias Benz. FRB Boston Series, paper no. 06-8 (2006).

Small, D., Loewenstein, G., & Strnad, J. (2006). Statistical, identifiable and iconic victims and perpetrators. In Ed McCaffery and Joel Slemrod (eds.), [Behavioral public finance: toward a new agenda.](#) New York: Russell Sage Foundation Press.

C. Applications and Policy

* Carpenter, J. and Myers, C. (2007) [Why Volunteer? Evidence on the Role of Altruism, Reputation, and Incentives](#), IZA D.P. 3021

* Esther Duflo and Rema Hanna [Monitoring Works: Getting Teachers to Come to School](#), MIT mimeo, May 2006

Frank, R. (2004) *What Price The Moral High Ground?* Princeton: Princeton University Press.

Funk, P. (2005) [“Modern Voting Tools, Social Incentives and Voter Turnout: Theory and Evidence,”](#) Universitat Pompeu Fabra mimeo.

□ Funk, P. (2007) [“Is There An Expressive Function of Law? An Empirical Analysis of Voting Laws with Symbolic Fines.”](#) *American Law and Economics Review*, 9(1), 135-159

* Meier, S. [“Do Subsidies Increase Charitable Giving in the Long Run? Matching Donations in a Field Experiment”](#) FRB Boston Series, paper no. 06-18 (2006).

□ Mellström, C., and Johannesson, M. (2006) Department of Economics [Crowding Out in Blood Donation: Was Titmuss Right?](#), forthcoming. In the *Journal of the European Economic Association*.

III. Self-control, time inconsistency

A. Surveys

* Frederick, S., Loewenstein, G. and O'Donoghue, T. (2002). [Time Discounting and Time Preference A Critical Review](#). *Journal of Economic Literature*. 40(2), 351-401. Also as Chapter 6 in CLR.

B. Evidence and Models

* Ariely, D., and Wertenbroch, K. (2002) [Procrastination, Deadlines, and Performance: Self-Control by Precommitment](#), *Psychological Science*, 13 (May): 219-224.

Della Vigna, S. [Paying Not To go To The Gym](#) with Ulrike Malmendier, *American Economic Review*, June 2006, Vol. 96, pp. 694-719

□ Della Vigna, S., [Contract Design and Self-Control: Theory and Evidence](#), with Ulrike Malmendier, *Quarterly Journal of Economics*, 119, May 2004, pp.353-402.

Koszegi, B. [On the Feasibility of Market Solutions to Self-Control Problems](#), Swedish Economic Policy Review (2005), 12(2), pp. 71-94.

Laibson, David (1997) ["Golden Eggs and Hyperbolic Discounting."](#) *Quarterly Journal of Economics*, 112, 443-478.

* O'Donoghue, T. , and Rabin, M. (2000). [The Economics of Immediate Gratification](#). *Journal of Behavioral Decision Making*, 13, 233-250.

O'Donoghue, Ted, and Rabin, Matthew (1999) ["Doing it Now or Later."](#) *American Economic Review*, 89 (March): 103--124.

C. Applications and Policy

Ausubel, L. and Shui, H. (2004) Time Inconsistency in the Credit Card Market, University of Maryland Working Paper,

* Benartzi, S. and Thaler, R. (2004) ["Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving."](#) *Journal of Political Economy*, 112 (S1), S164-S187

Della Vigna, S., [Job Search and Impatience](#), with M. Daniele Paserman, *Journal of Labor Economics*, July 2005, Vol. 23, pp. 527-588.

Gruber, G. and Mullainathan, S. (2005) [Do Cigarette Taxes Make Smokers Happier](#)," *Advances in Economic Analysis and Policy*. 5(1), 1412-1412.

* Karlan, D., Ashraf, N. and Yin, W. (2006) [Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines](#), *Quarterly Journal of Economics*, 121(2), 635-672.

* Karlan, D., Ashraf, N. and Yin, W. (2003) [A Review of Commitment Savings Products in Developing Countries](#) *Asian Development Bank Economics and Research Development Working Paper*, 45.

Koszegi, B. and Gruber J. (2004) [A Theory of Government Regulation of Addictive Bads: Tax Levels and Tax Incidence for Cigarette Excise Taxation; Tables](#); *Journal of Public Economics* 88(9-10), 1959-1987.

□ Madrian, B., Choi J., Laibson, D. and A. Metrick (2005) [Decisions: Theory and Evidence from 401\(k\) Saving](#),” NBER Working Paper No. 11074,

□ Madrian, B., Choi J., Laibson, D. and A. Metrick “[Optimal Defaults](#),” *American Economic Review Papers and Proceedings*, 2003, 93(2): 180-185.

Stegman, M. (2007) [“Payday Lending.”](#) *Journal of Economic Perspectives*, 21(1), 169–190

IV. [Overconfidence, Motivated Beliefs, Wishful Thinking](#)

A. [Evidence and Models](#)

Akerlof, G. and W. Dickens, "[The Economic Consequences of Cognitive Dissonance](#)," *American Economic Review*, LXXII 72(3).

□ Bénabou, R. and J. Tirole (2002) ["Self-Confidence and Personal Motivation."](#) *Quarterly Journal of Economics*, 117(3), 871-915.

Brunnermeier, M. and J. Parker (2003) ["Optimal Expectations."](#) *American Economic Review* , Vol 95 No 4, (September 2005) 1092-1118.

* Camerer, C. and Lovallo, D. (1999) [“Overconfidence and Excess Entry: An Experimental Approach.”](#) *American Economic Review*, 89, 306-18. Also abridged as chapter 23 in *CVF*.

Benoît, J.P. and Dubra, J. (2007)["Overconfidence?"](#) NYU mimeo, October.

□ Gneezy, Uri, Muriel Niederle, Aldo Rustichini (2003) [“Performance in Competitive Environments: Gender Differences”](#), *Quarterly Journal of Economics*, CXVIII, August, 1049 – 1074.

* Hoelzl, E. and Rustichini, A. (2005) [“Overconfident: Do you put your money on it?”](#), *The Economic Journal*, Vol. 115, No. 503, pp. 305-318, April.

Karlsson, N., Loewenstein, G. and Seppi, D. (2005) [“The 'Ostrich Effect': Selective Attention to Information about Investments.”](#) Carnegie-Mellon mimeo, 2005.

Loewenstein, G. (1987) [“Anticipation and the Valuation of Delayed Consumption.”](#) *Economic Journal*, 97: 666-84.

* Puri, Manju and Robinson, David (2005) [“Optimism and Economic Choice”](#), NBER Working Paper No. 11361, May.

* Taylor, S.E. and J.D. Brown (1988) ["Illusion and Well-Being: A Social Psychological Perspective on Mental Health."](#) *Psychological Bulletin*, CIII 193-210.

Weinstein, N., (1980) "Unrealistic Optimism About Future Life Events," *Journal of Personality and Psychology*, XXXIX 39(5), 806-820.

B. Applications and Policy

* Arabsheibani, G., de Meza, D., Maloney, J. and Pearson, B. (2000) "[And a vision appeared unto them of a great profit: evidence of self-deception among the self-employed](#)," *Economics Letters*, 67(1), 35-41.

* Babcock, L. and Loewenstein, G., (1997) "[Explaining Bargaining Impasse: The Role of Self-Serving Biases](#)," *Journal of Economic Perspectives*, 11(1), 109-26, Winter.

Babcock, L., Loewenstein, and Wang, X. (1996) "[Choosing the Wrong Pond: Social Comparisons in Negotiations That Reflect a Self-Serving Bias](#)," *Quarterly Journal of Economics*, 111(1), 1-19.

Babcock, L., Loewenstein, G., Issacharoff, S. and Camerer, C. (1995) "[Biased Judgments of Fairness in Bargaining](#)," *American Economic Review*, 85(1), 1337-1343.

Caplin, A. (2003) "[Fear as a Policy Instrument](#)," in *Time and Decision*, G. Loewenstein, D. Read, and R. Baumeister eds., Russell Sage, 2003.

[Caplin, A. and Eliaz, K. Aids Policy and Psychology: A Mechanism Design Approach](#), forthcoming Rand Journal of Economics

Koszegi, B. (2003) [Health Anxiety and Patient Behavior](#), *Journal of Health Economics*, 22, 1073-1084

V. Reference dependence, loss aversion

A. Surveys

* Camerer C. (2000) "[Prospect Theory in the Wild: Evidence from the Field](#)," chap. 16 in D. Kahneman and A. Tversky, eds., *Choices, Values, and Frames*, Cambridge: University Press. (Also Chapter 16 in *CVF*); web link is to 1998 working paper).

B. Evidence and Models

* Kahneman, D., Knetsch, J.L., and R.H. Thaler (1990) "[Experimental Tests of the Endowment Effect and the Coase Theorem](#)," *Journal of Political Economy*, 98(6):1325-48.

□ Koszegi, B. and Rabin, M. (2006) [A Model of Reference-Dependent Preferences](#) (with Matthew Rabin), *Quarterly Journal of Economics*, 121(4), 1133-1166.

* List, J. (2003) "[Does Market Experience Eliminate Market Anomalies?](#)" *The Quarterly Journal of Economics*, vol. 118(1), pages 41-71, February.

Plott, C., and K. Zeiler (2005) "[The Willingness to Pay- Willingness to Accept Gap, The "Endowment Effect," Subject Misconceptions and Experimental Procedures for Eliciting Valuations](#)". *American Economic Review* 95(3):530-545.

Thaler, R. H. (1999). [Mental accounting matters](#). *Journal of Behavioral Decision Making*, 12, 183-206.

Tversky & Kahneman, (1991) "[Loss Aversion in Riskless Choice: A Reference-Dependent Model](#)," *Quarterly Journal of Economics*, 106:1040-61. Also as chapter 7 in *CVF*. Read chapter 8 as well if you have the book.

C. Applications and Policy

Dhami, S. and Al-Nowaihi, N. (2007) "[Why Do People Pay Taxes? An Explanation Based On Loss Aversion And Overweighting of Low Probabilities](#)", University of Leicester D.P. 3/18.

* Genesove, D., and Mayer, C. (2001) [Loss aversion and seller behavior: Evidence from the housing market](#). *Quarterly Journal of Economics*, 1233-1260.

* Mas, A. (2006) UC Berkeley [Pay, Reference Points, and Police Performance](#)

IV. Malleable preferences, hedonic forecasting [Note: will probably not have time to cover this section]

A. Evidence and Models

Ariely, D., G. Loewenstein, and D. Prelec (2003) "[Coherent Arbitrariness: Stable Demand Curves Without Stable Preferences](#)" *Quarterly Journal of Economics*, 73-105.

□ Conlin, M., O'Donoghue, T., and T. Vogelsang (2006) "[Projection Bias in Catalog Orders](#)," Cornell University mimeo.

* Gilbert, D.T., Pinel, E.C., Wilson, T.D., Blumberg, S.J., and Wheatley, T.P. (1998). "[Immune Neglect: A Source of Durability Bias in Affective Forecasting](#)," *Journal of Personality and Social Psychology*, 75, 617-638.

Iyengar, S. S., & Lepper, M. (2000) "[When Choice is Demotivating: Can One Desire Too Much of a Good Thing?](#)" *Journal of Personality and Social Psychology*, 79, 995-1006.

* Iyengar, S. and Kamenica, E. (2007) "[Choice Overload and Simplicity Seeking](#)", *Columbia University mimeo*.

Kahneman, Daniel, and Wakker, Peter P. (1997) "[Back to Bentham? Explorations of Experienced Utility](#)," *Quarterly Journal of Economics* 112, 375-407.

□ Kamenica, E. (2007) [Contextual Inference in Markets: On the Informational Content of Product Lines](#), Chicago GSB mimeo.

Loewenstein, G., and Schkade, D. (1999) "[Wouldn't It Be Nice? Predicting Future Feelings](#)" in D. Kahneman, E. Diener and N. Schwartz, eds. *Well-Being: Foundations of Hedonic Psychology*. New York, NY: Russell Sage Foundation.

Rabin, M., Loewenstein, G. and T. O'Donoghue (2004) "[Projection Bias in Predicting Future Preferences](#)", *Quarterly Journal of Economics*, 118(4), November 2003, 1209-1248.

B. Applications and Policy

Kahneman, D., Ritov, I., and D. Schkade (1999) [Economic Preferences or Attitude Expressions? An Analysis of Dollar Responses to Public Issues](#) *Journal of Risk and Uncertainty*, 19:203-235. Also as chapter 36 in *CVF*.

* Bertrand, M., Karlan, D., Mullainathan, S., Shafir, E. and J. Zinman. (2005) [What's Psychology Worth? A Field Experiment in the Consumer Credit Market.](#), mimeo.

* Huberman, G., Iyengar, S. and W. Jiang (2004) [How Much Choice is Too Much: Determinants of Individual Contributions in 401K Retirement Plans](#), in Mitchell, O.S. and Utkus, S. (Eds.) *Pension Design and Structure: New Lessons from Behavioral Finance*, 83-95. Oxford: Oxford University Press.

VII. Bounded Rationality

□ Gabaix, X. and Laibson, D. (2006) [Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets](#), *Quarterly Journal of Economics*, 121 (2), 505-540

Ellison, G. (2006) [Bounded Rationality in Industrial Organization](#), in Blundell, Newey and Persson (eds.), *Advances in Economics and Econometrics: Theory and Applications*, Ninth World Congress, Cambridge University Press.

* Frederick, S. (2005) [Cognitive Reflection and Decision Making](#), *Journal of Economic Perspectives*, 19(4), 25-42

□ Sheshinski, E. (2002) [Bounded Rationality and Socially Optimal Limits on Choice in A Self-Selection Model](#).

VIII. Debates over Methodology and Policy

Caplan, B. [Behavioral Economics and Perverse Effects of the Welfare State \(with Scott Beaulier\)](#)

* Glaeser, E. (2005) [Paternalism and Psychology](#), Harvard University mimeo.

* Gul, F. and Pesendorfer, W. (2005) ["The Case for Mindless Economics"](#), Princeton University mimeo, November.

Koszegi, B. and Rabin, M.. (2007) [Mistakes in Choice-Based Welfare Analysis](#), *American Economic Review* (2007), 97(2), 477-481.

* Loewenstein, G. and Haisley, E). [The economist as therapist: Methodological issues raised by 'light' paternalism](#). In A. Caplin and A. Schotter (Eds), *Handbook of Economic Methodologies*, Oxford, England: Oxford University Press.

Pesendorfer, W. (2006) ["Behavioral Economics Comes of Age"](#), Princeton University mimeo, May.

* Thaler, R. and Sunstein, C. (2003) ["Libertarian Paternalism."](#) *American Economics Review* 93 (2), 175-179.