

# Behavioral economics

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## Course overview:

Behavioral economics observes regularities in individual decision-making, documents departures from what classical economic theory predicts, and explains these departures by incorporating psychological insights into economic theories.

This course covers recent topics in behavioral economics. The first part includes the analysis of deviations from the standard neoclassical model due to imperfect optimization (i.e., limited attention, limited information, limited computational capacity), bounded self-control (i.e., reference dependence, framing, status quo bias), nonstandard preferences (i.e., social preferences, fairness). In the second part, the course gives some applications of behaviorally motivated (policy) interventions in specific fields, mostly environmental economics but also public economics, household finance, and others.

The main course objectives are exposure to the most recent theoretical and empirical research in behavioral economics, learning how to link behavioral biases and behavioral interventions, and testing behavioral economic theory using experimental data.

## Outline of the lectures (18 hours):

1. The first part of the course covers deviations from the standard neoclassical model of consumer behavior. In particular, we explore reference-dependent preferences, time preferences, beliefs and learning (i.e., overconfidence, projection bias), heuristics, and social preferences.

### Readings:

- Selected chapters in Bernheim, B. Douglas, Stefano DellaVigna, and David Laibson. 2018, 2019. "Handbook of Behavioral Economics." Elsevier.
- DellaVigna, S. 2009. "Psychology and Economics: Evidence from the Field." *Journal of Economic Literature*.
- Frederick, S., G. Loewenstein, and T. O'Donoghue. 2002. "Time Discounting and Time Preference: A Critical Review." *Journal of Economic Literature*.
- Cohen, J., K.M. Ericson, D. Laibson, and J.M. White, 2020. "Measuring time preferences." *Journal of Economic Literature*.
- Augenblick, N., M. Niederle, and C. Sprenger. 2015. "Working over Time: Dynamic Inconsistency in Real Effort Tasks." *Quarterly Journal of Economics*.
- Augenblick, N. and M. Rabin. 2019. "An experiment on time preference and misprediction in unpleasant tasks." *Review of Economic Studies*.
- Rao, G. 2019. "Familiarity does not breed contempt: Generosity, discrimination, and diversity in Delhi schools." *American Economic Review*.
- Bursztyn, L. and R. Jensen. 2015. "How Does Peer Pressure Affect Educational Investments?" *Quarterly Journal of Economics*.
- Bursztyn, L., G. Egorov, and R. Jensen. 2019. "Cool to be smart or smart to be cool? Understanding Peer Pressure in Education." *The Review of Economic Studies*.
- Bursztyn, L., A. González, and D. Yanagizawa-Drott. 2020. "Misperceived Social Norms: Female Labor Force Participation in Saudi Arabia." *American Economic Review*.

2. The second part of the course provides some examples of behaviorally motivated (policy) interventions.

**Readings (further readings will be provided during the course):**

- Madrian, B. C., and D. F. Shea. 2001. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *Quarterly Journal of Economics*.
- Thaler, R. H. and S. Benartzi. 2004. "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving." *Journal of Political Economy*
- Blumenstock, J., M. Callen, and T. Ghani. 2018. "Why Do Defaults Affect Behavior? Experiment Evidence from Afghanistan." *American Economic Review*.
- Fowlie, M., C. Wolfram, C. A. Spurlock, A. Todd, P. Baylis, and P. Cappers. 2017. "Default Effects and Follow-On Behavior: Evidence from an Electricity Pricing Program". NBER Working Paper 23553.
- Gneezy, U. and A. Rustichini. 2000. "Pay Enough or Don't Pay at All." *Quarterly Journal of Economics*.
- Allcott, H., and D. Taubinsky. 2015. "Evaluating Behaviorally-Motivated Policy: Experimental Evidence From the Lightbulb Market." *American Economic Review*.
- Allcott, H. and J. Kessler. 2019. "The Welfare Effects of Nudges: A Case Study of Energy Use Social Comparisons." *American Economic Journal: Applied Economics*.
- DellaVigna, S., and E. Linos. 2022. "RCTs to Scale: Comprehensive Evidence from Two Nudges Units." *Econometrica*.
- Delmas, M. A., and Lessem, N. (2014). Saving power to conserve your reputation? The effectiveness of private versus public information. *Journal of Environmental Economics and Management*.
- Essl, A., Steffen, A., & Staehle, M. (2021). Choose to reuse! The effect of action-close reminders on pro-environmental behavior. *Journal of environmental economics and management*.