Behavioral Economics and Public Policy (ECO 305/SPI 305)

Professor: Andrea Wilson (awilson@princeton.edu)

Class: M W 11-12:20

- **first 2 (possibly 3) classes via Zoom!!! (see link in the Zoom tab on Canvas)**
- remaining classes: Robertson 035

Office Hours: TBA (I'll announce regular ones by the start of week #2; please email me if you need to talk before then)

Textbook: There is no textbook. I will post slides on Canvas after each lecture, and some supplementary readings as the course progresses. I will also ask you to sign up for a student account on MobLab, which costs $25 (I'll send invitations once enrollment stabilizes); we will use this software to run some fun experiments in class.

Evaluation: 4 problem sets (20%), Exams (75%), Participation (5%)

- the midterm will likely be 80 minutes, and the final a take-home
- exam weights: 30% midterm + 45% final
- possible option to write a paper for 20% of your grade
- problem sets: 4 of them, and all count. You can have up to one free 2-day extension and one free 1-day extension, with point deductions beyond this.
- participation: there will be several ways to earn the participation grade, including during class itself and via participating in experiments.

General Course Style The course will be **much more econ than policy in style**, although most topics to discuss will have obvious policy implications. Lectures will cover both theory and empirical/experimental evidence. But behavioral economics is generally viewed as a subfield of micro theory, so assignments will be a mix of problem solving, writing, and creative thought (no data work of our own).

Course Description: There is a growing body of evidence suggesting that people systematically violate many classical economic assumptions: They are not perfectly rational, cognitive resources are not always unlimited, and not everyone acts out of pure self-interest. Fortunately, these deviations from the rational benchmark are not completely random, but often take on predictable patterns. The goal of this class is to understand such deviations: when do they tend to occur, how can we model them, how important are they, etc. For each topic, we will explore the empirical evidence, run some of our own experiments, and develop/analyze simple ways to model the behavior. We will also explore their economic and policy implications.

Course Outline

Here is the tentative schedule of topics, with the caveat that minor adjustments are possible.

1. Intro (1 class – Jan 24):
    - classical model of rational choice
    - overview of behavioral economics and bounded rationality
2. Attention (4 classes – Jan 26, Jan 31, Feb 2, Feb 7)
    - common errors
    - consideration sets
    - search and satisficing
    - salience
    - reference dependence
    - model: rational inattention, with applications to discrimination
3. Time Preferences (3 classes – Feb 9,14,16)
    - time inconsistency
    - willpower and temptation
    - preference for commitment
4. Beliefs & Statistical Fallacies (2 classes – Feb 21,23)
    - "law of small numbers", hot hand fallacy, gambler's fallacy
    - confirmation bias
5. **MIDTERM WEEK AND SPRING BREAK**
    - review and/or no class: Feb 28
    - midterm: March 2
    - spring break: March 6-13

6. Choice Under Uncertainty (4 classes – March 14,16,21,23)

    - expected utility and its many common violations
    - prospect theory
    - ambiguity

7. Social Preferences & Behavioral Game Theory (4 classes – March 28,30; April 4,6)

    - level-K reasoning
    - ultimatum game
    - inequality aversion
    - reciprocity
    - application: labor market

8. Self-Deception (2 classes – April 11,13)

    - overconfidence
    - cognitive dissonance
    - social pressure and moral choices

9. Category-Based Models of Bounded Rationality (2 classes – April 18,20)

    - bounded memory: optimal overconfidence/confirmation bias
    - stereotypes
    - persuasion