

## **Berg Syllabus for ECO 3335, Fall 2008**

Psychology and Economics

Section 001, Call number 11774, meets TR 11:30 to 12:45pm in SOM2.112

Instructor: Dr. Nathan Berg

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Office Hours: By appointment. Please email me to schedule an appointment. If you'd like to ask a question by email, that's fine. If you're asking for an appointment, I'd like you to suggest a time (or several possible times) in your email.

Textbook: There is no required textbook. You are responsible for required reading assignments detailed in the Course Plan section below.

### **Course Description**

Psychology and economics, also known as behavioral economics, is one of the fastest growing and currently most active research areas within economics. This course introduces students to many of the most well known experimental research articles and theoretical material investigating core assumptions about how consumers and firms make decisions.

### **Student Learning Objectives/Outcomes**

This course promotes student learning in various ways:

- Understand the standard economic model of decision making and core assumptions of Homo Economicus (economic man)
- Know widely used definitions of rationality in economics, decision making science, and psychology and economics
- Definitions, theories and applications of bounded rationality
- Gain fluency describing experimental data as it relates to decision-making assumptions and tests of standard economic theory
- Loss aversion and other theoretical models of judgment and decision making that have played important roles in the development of behavioral economics
- Mastery of basic expected utility theory and related experimental anomalies such as Allais Paradox and the Ellsberg Paradox

### **Grading**

100 points can be earned during the semester from three primary sources:

- (1) Exam 1 (worth 30 points), Tuesday, October 21, 11:30am-12:45pm
- (2) Exam 2 (worth 30 points), Thursday, December 4, 11:30am-12:45pm
- (3) Writing project (worth 15 points), Due Tuesday, Nov. 25, at the beginning of class. See details below.

- (4) Quizzes (worth 15 points): Pop quizzes will be given frequently to test whether you have read the assigned readings. The two lowest grades will be dropped automatically. No make-up quizzes are allowed.
- (5) Participation (worth 10 points): A portion of the participation grade depends on how many of the pop quizzes you turn in, which indirectly measures attendance.

Final semester grades will be based on the following scale: 100 to 93 points earns an A; A- for 92 to 90 points; B+ for 89-87 points; B for 86 to 83points; B- for 82 to 75 points; C+ for 74 to 70 points; C for 69 to 65 points; C- for 64 to 60 points; D for 59 to 50 points; F for 49 or fewer points.

## Course Plan

*Note: the plan is tentative and subject to change, allowing us some flexibility to take more time, as needed, to more fully deal with challenging material or more deeply pursue particular interests of individual students.*

Thursday, August 21	Introduction and first-day questionnaire
Tuesday, August 26	Experimental evidence on reference-points <b>Read:</b> Kahneman, Daniel, Jack Knetsch and Richard Thaler. <a href="#">"The Endowment Effect, Loss Aversion, and Status Quo Bias."</a> <i>Journal of Economic Perspectives</i> 5(1), (1991):193-206.
Thursday, August 28	Experimental evidence on reference-points <b>Read:</b> Read Thaler, Richard and Amos Tversky. <a href="#">"Preference Reversals."</a> <i>Journal of Economic Perspectives</i> 4(2), (1990): 201-211. Homework 1 due
Tuesday, September 2	Theories of rationality
Thursday, September 4	Reference-points in utility theory

Tuesday, September 9	<b>Bounded self-interest</b> Read Thaler, Richard. " <a href="#">The Ultimatum Game.</a> " <i>Journal of Economic Perspectives</i> 2(4), (1988): 195-206.
Thursday, September 11	<b>Bounded self-interest</b> Read Camerer, Colin and Richard Thaler. " <a href="#">Ultimatums, Dictators and Manners</a> " <i>Journal of Economic Perspectives</i> 9(2), (1995):209-219.
Tuesday, September 16	<b>Bounded self-interest</b> Read Henrich, <a href="#">Fehr</a> , Boyd, Bowles, Gintis, Camerer, and McElreath. " <a href="#">Cooperation, Reciprocity and Punishment in Fifteen Small-scale Societies.</a> " <i>American Economic Review</i> 91 (2001): 73-78.
Thursday, September 18	<b>Bounded willpower</b> Read Loewenstein, George and Richard Thaler. " <a href="#">Intertemporal Choice</a> " <i>Journal of Economic Perspectives</i> 3(4) (1989): 181-193.
Tuesday, September 23	<b>Bounded willpower and paternalism</b> Read Thaler, T., and C. Sunstein. " <a href="#">Libertarian Paternalism.</a> " <i>The American Economic Review</i> 93, no. 2 (2003): 175-179.
Thursday, September 25	<b>Bounded computational capacity</b> Read Colin Camerer, "Introduction," <a href="#">Behavioral Game Theory: Experiments on Strategic Interaction</a> , Princeton, 2003
Tuesday, September 30	<b>Bounded computational capacity</b> Read <a href="#">Todd, P. M.</a> , & Gigerenzer, G. (2000). <a href="#">Précis of Simple Heuristics That Make Us Smart.</a> <i>Behavioral and Brain Sciences</i> , 23, 727-741.
Thursday, October 2	<b>Bounded computational capacity</b>

Tuesday, October 7	Winners Curse and auctions Read Thaler, Richard. " <a href="#">The Winners Curse.</a> " <i>Journal of Economic Perspectives</i> 2(1), (1988):191-202.
Thursday, October 9	Expected utility theory
Tuesday, October 14	Expected utility theory and Allais' Paradox
Thursday, October 16	Review for Exam 1
Tuesday, October 21	<b>EXAM 1</b>
Thursday, October 23	Ecological rationality Read Gerd Gigerenzer (2004), " <a href="#">Fast and Frugal Heuristics: Tools of Bounded Rationality.</a> " in D. Koehler and N. Harvey, eds., Handbook of judgment and decision making. Oxford: Blackwell. Gigerenzer, G. (2004).
Tuesday, October 28	Ecological rationality Read Simon, Herbert, " <a href="#">Rational Choice and the Structure of the Environment</a> ", 1956, <i>Psychological Review</i> .
Thursday, October 30	Policy and economic theory Read Hines, James and Richard Thaler. " <a href="#">The Flypaper Effect.</a> " <i>Journal of Economic Perspectives</i> 9(4), (1995): 217-226.
Tuesday, November 4	Behavioral Finance Read Thaler, Richard. " <a href="#">The January Effect.</a> " <i>Journal of Economic Perspective</i> 1(1), (1987): 197-201.
Thursday, November 6	Behavioral Finance Read Thaler, Richard. " <a href="#">Saving, Fungibility, and Mental Accounts.</a> " <i>Journal of Economic Perspectives</i> 4(1), (1990):193-205.
Tuesday, November 11	Behavioral Finance

Thursday, November 13	<b>Behavioral Finance</b> Read Lee, Charles, Adrei Schleifer and Richard Thaler. " <a href="#">Closed End Mutual Funds.</a> " <i>Journal of Economic Perspectives</i> 4(4), (1990):153-164.
Tuesday, November 18	<b>Wages and economic theory</b> Read Thaler, Richard. " <a href="#">Interindustry Wage Differentials.</a> " <i>Journal of Economic Perspectives</i> 3(2), (1989): 181- 193.
Thursday, November 20	<b>Wages and economic theory</b>
Tuesday, November 25	<b>Betting</b> <b><i>Writing assignment due</i></b> Read Thaler, Richard and Ziemba, William. " <a href="#">Parimutuel Betting Markets: Racetracks and Lotteries.</a> " <i>Journal of Economic Perspectives</i> 2(2), (1988):161-174.
Thursday, November 27	HOLIDAY
Tuesday, December 2	Review for Exam 2, Student evaluations
Thursday, December 4	<b>EXAM 2</b>
Tuesday, December 9	Final Exam Week starts (no final in this class)

### **Writing Assignment**

- 1) Read Simon, Herbert, "[A Behavioral Model of Rational Choice](#)", 1955, *QJE*.
- 2) Find an article about some real-world phenomenon that interests you, published in The Economist, The Financial Times, The New York Times, the Wall Street Journal, The Atlantic Monthly, or The New Yorker.
- 3) Write two to four pages (double spaced, Times New Roman 12 point font, MSWORD default margin sizes) containing the following sections:
  - a. Description. Describe the phenomenon in your own words, but be very precise. Try to use theories, definitions and experimental results covered in class to help describe the real-world events in your article.

- b. Explain one important prediction that standard neoclassical theory makes about the phenomenon, or describe a policy recommendation implied by the assumptions in standard economic theory
- c. Explain one important prediction that psychology-inspired theory makes about the phenomenon. Also mention Herbert Simon. This can be one of the bounds in bounded rationality or something more specific covered in class or that you've learned about on your own. Include references to any academic articles that you cite. You should mention at least one of the two Herbert Simon papers and state how Simon's ideas support or contradict the prediction based on psychology and economics you are describing in this section.
- d. Make a well-reasoned conclusion that reflects your own opinions about evidence regarding the phenomenon described in your paper. Describe what you think should be done, or not be done, to resolve the problem, or to encourage a particular economic behavior in the future.
- e. Attach a copy of the article upon which your writing project is based.

Proofread your writing project five to 10 times. Style and substance are inseparable in good writing. The space constraints must be respected strictly using normal margins (default values in MS-WORD) and Times New Roman 12-point fonts with double spacing. The length restriction makes this assignment more challenging. Strive to write concisely, simply and insightfully. Due date is Tuesday, November 25, at the beginning of class. Start early and do not be late.

### **Schedule Problems**

If you have an emergency or a valid conflict and provide me with written documentation, I will consider granting an extension or providing an alternative assignment. Otherwise, I do not want to extend any deadlines or permit schedule changes. I want you to succeed in this class. Please stay organized and work well ahead of deadline. The reading assignments are critical to succeeding in this class.

### **Incompletes**

There will be no grades of incomplete awarded without appropriate documentation.

### **Scholastic Dishonesty**

Scholastic dishonesty includes, but is not limited to, cheating on assignments or examinations, plagiarizing (misrepresenting as your own work any part of work done by another), submitting the same assignment, or substantially similar assignments to meet the requirements of more than one course without the approval of all instructors, depriving another student of necessary course materials, or interfering with another student's work. If in doubt about the ethics of your actions, consult the Catalog to see the University's policy. Scholastic dishonesty will not be tolerated. Students are responsible for knowing what constitutes scholastic dishonesty and its consequences (see

<http://www.utdallas.edu/student/slife/chapter49.html>). If you have any doubts, contact me before you turn in your assignments.

**Accessibility (for students with disabilities)**

If you have a condition that requires accommodation in this course, please speak with me after class or in office hours during the first week of class. I will be happy to make appropriate accommodations provided timely notice is received and the arrangement is consistent with any recommendations from Disability Services, when applicable. Disability Services can be reached at 883-2098. The syllabus and other course materials can be made available in alternative formats.

**Attendance Policy**

There is no explicit attendance requirement for this course. However, if students expect to do well, regular attendance is necessary. Assignments may change, and adjustments to the exam schedule may occur. Students who miss deadlines or fail to complete an assignment because they did not hear scheduling announcements in class will not be excused. Please do not ask me for notes.

**Disclaimer:**

This syllabus is tentative and can be changed. All changes will be announced in class.