Behavioral Economics and Finance – 14.127
Spring 2004
Thursday 4-7, E51-372

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The requirements for the course are about three problem sets and/or referee reports, and a term paper. The term paper will be due on September 15, 2004. Students are expected to propose original insights, theories, experiments or field studies.

Syllabus

*designate required readings.

There are two textbooks:

*Kahneman and Tversky *Choices, values and frames*, by (henceforth CVF), Cambridge University Press, 2000

*Shleifer, Andrei *Inefficient capital markets: An introduction to behavioral finance*, Oxford UP 2000. (ICM)

The following books are also useful:

Colin F. Camerer, George Loewenstein, Matthew Rabin editors, *Advances in Behavioral Economics*, Princeton University Press 2003 (henceforth ABE)

R. Thaler, *Advances in behavioral finance*, Russel Sage Foundation, 1993.

INTRODUCTION

*Rabin, M. "Economics and Psychology", JEL, v36 n1, March 1998, p.11-46. URL

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Discussion of traditional objections

Akerlof, George A; Yellen, Janet L., "Can Small Deviations from Rationality Make Significant Differences to Economic Equilibria?" American Economic Review. Vol. 75 (4). p 708-20. September 1985.

*Gabaix, Xavier and David Laibson "Competition and Consumer Confusion".

*ICM, Chap. 2

*Thaler, R., "The Psychology and Economics conference handbook: Comments on Simon, on Einhorn and Hogarth, and on Tversky and Kahneman", J of Business, v59 n4 part 2, Oct 1986, p. S279 - 284.

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Some psychology of decision-making

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Slovic, Paul "Rational Actors and Rational Fools: Implications of the Affect Heuristic for Behavioral Economics"

Decisions under risk and uncertainty

*Kahneman, D., Tversky, A. "Prospect theory: An analysis of decision under risk",, Econometrica, v47 n2, March 1979, p.263-91.
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*Plott, C. and K. Zeiler (2003) "The Willingness to Pay/Willingness to Accept Gap, The "Endowment Effect," Subject Misconceptions and Experimental Procedures for Eliciting Valuations," Caltech mimeo.

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Overconfidence, and manipulation of beliefs

Benabou, R. and Jean Tirole *"Self-Confidence and Personal Motivation" Quarterly Journal of Economics*, August 2002, 117(3), 871-915.
http://www.princeton.edu/~rbenabou/

Brunnermeier, M. and J. Parker, Optimal expectations http://www.princeton.edu/~markus/

Koszegi, B. U. Ego Utility and Information Acquisition Berkeley mimeo
http://emlab.berkeley.edu/users/botond/index.html

Landier, Augustin and David Thesmar Contracting with Optimistic Entrepreneurs: Theory and Evidence

Quattrone and Tversky "Contrasting Rational and Psychological Analyses of Political Choice" CVF 25

Rabin, Matthew and Joel Schrag "First Impressions Matter: A Model of Confirmatory Bias,'' Quarterly Journal of Economics 114(1), 37-82, February 1999.

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Decision utility and experienced utility

Frey, B. and A. Stutzer (2002) "What Can Economists Learn from Happiness Research?" Journal of Economic Literature: 402-35

*Gilbert, D. T., Pinel, E. C., Wilson, T. D., Blumberg, S. J., & Wheatley, T. P. (2002). Durability bias in affective forecasting. In Gilovich, T., Griffin, D., & Kahneman, D. (Eds.), *Heuristics and biases: The psychology of intuitive judgment* (pp. 292-312). Cambridge: Cambridge University Press.

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Contingent valuation

*Kahneman, D. Ilana Ritov and Savid Schkade, “Economic preferences or attitude expressions? An analysis of dollar responses to public issues”
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Time discounting

Some psychological evidence on time discounting

*Frederick, Shane and G. Loewenstein and T. O’Donoghue, “Time Discounting: A Critical Review”, forth. JEL. http://sds.hss.cmu.edu/faculty/loewenstein.html. In ABE.

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Bounded rationality

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*Ariely, D., G. Loewenstein, and D. Prelec (2003) "Coherent Arbitrariness: Stable Demand Curves without Stable Preferences," Quarterly Journal of Economics, 73-105
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Inflation and nominal illusion

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*Shafir, E., Diamond, P., and Tversky, A. “Money illusion”, QJE, v112 n2, May 1997, p.341-74. CVF 17.

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Theory

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