

Department of Economics
Hacettepe University
ECO 344 Behavioral Economics
Spring 2013-2014

Course Information

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Time/Place **Fridays 13:00 – 15:45 @ D7**

Office Hours: Mondays and Wednesdays: 15:45 – 16:45, or by appointment

Course Website: <http://yunus.hacettepe.edu.tr/~sara>, <http://www.shihomiaksoy.org>

Course Description This course introduces the fundamentals of behavioral economics which integrates insights from psychology into economic models of judgment, decision making and behavior. The first part of the course focuses on heuristics, biases and anomalies. The comparison of individual and statistical judgment as well as the human cognition of probability will also be discussed. The second part is composed of a review of expected utility theory and preference and an introduction of prospect theory. In the last part of the course, some topics in consumer behavior and individuals' intertemporal decision making (discounting, self-control, procrastination) will be discussed. Social preference and fairness will conclude this course. Since various experiments will be conducted in the class throughout the course, students' attendance is given significant importance.

Course Objectives Upon successful completion of this course, students will be familiar with the basic theories and concepts in behavioral economics, understand the psychological influence on individuals' decision making, be able to explain the differences between the decisions with unbounded-rationality in conventional economic theories and with bounded-rationality in alternative decision models, and be able to design simple experiments to observe individual decision making under uncertainty.

Course Requirements

1.	Midterm Exam	30%
2.	Final Exam	30%
3.	Presentation	20%
3.	Attendance	20%

Make-up Exam

No makeup exam will be given unless a legally acceptable document (such as medical report) is submitted. Validity of such document will be examined.

Grading

Final grade will be given entirely based on your scores under a fair and single grading policy. None of students' "special situations/needs" (e.g. scholarship, graduation, financial condition, family situation etc.) will affect the grade. If you need a certain grade, work hard.

Academic Misconduct

Please read the relevant material at <http://www.plagiarism.org/>. Detected plagiarism throughout the coursework will cause the student to be punished according to the University rules. The students are expected to know what plagiarism is and lack of knowledge is not an acceptable excuse.

Disabilities

Any student who feels s/he may need an accommodation based on the impact of a disability should contact me privately to discuss your specific need.

Week	Date	Topics
1	Feb. 21	Introduction to Behavioral Economics
2	Feb. 28	Judgment, Rationality (1)
3	Mar. 7	Rationality (2)
4	Mar.14	Heuristic Judgment (1) Availability, Anchoring and Adjustment
5	Mar.21	Heuristic Judgment (2) Representativeness
6	Mar.28	Individual and Statistical Judgment
7	Apr. 4	Anomalies (1)
8	TBA	Midterm Exam
9	Apr.18	Anomalies (2)
10	Apr.25	Probability and Belief
11	May 2	Uncertainty
12	May 9	Expected Utility Theory, Prospect Theory
13	May 16	Consumer Behavior
14	May 23	Choice over Time Discounting, Intertemporal Choice, Self-Control, Procrastination

Reading Assignment

1. [TD] Baron, J. (2007). Thinking and Deciding. Forth edition. Cambridge University Press.
2. [TFS] Kahneman, D. (2011). Thinking, Fast and Slow. New York: Farrar, Straus and Giroux.
3. [RC] Hastie R. and Dawes R.M. (2009). Rational Choice in an Uncertain World (2nd edition). Thousand Oaks, CA Sage Publications, Inc.
4. [CVF] Kahneman, D. (2000). Choices, Values and Frames. First edition. Cambridge University Press.
- 5: [PI] Ariely, D. (2010). Predictably Irrational, Revised and Expanded Edition: The Hidden Forces That Shape Our Decisions, Harper Perennial.

Week 1 (2/21): Introduction to Behavioral Economics

Week 2 (2/28): Judgment, Rationality (1)

[TD]: Ch. 3

[TFS]: Chapters 1, 2, 3, 4, 5

Week 3 (3/7): Rationality (2)

[RC]: Ch. 10

[CVF]: Ch. 42

[TFS]: Chapters 6, 7, 8, 9

Week 4 (3/14): Heuristic Judgment (1) : Availability, Anchoring and Adjustment

[RC]: Ch. 4

[TFS]: Ch. 10, 11, 12, 13

Week 5 (3/21): Heuristic Judgment (2) Representativeness

[RC]: Ch. 5

[TFS]: Ch. 14, 15

Week 6 (3/28): Individual vs. Statistical Judgment

[RC]: Ch. 3

[TD]: Ch.15

[TFS]: Ch. 19, 20, 21, 22, 23, 24

Week 7 (4/4): Anomalies (1): Loss Aversion, Reference-Dependence, Endowment Effect, Status Quo Bias

[CVF]: Ch. 7, 8

[TD]: Ch. 12

[TFS]: Ch. 27, 28, 29, 30, 31, 32

[PI]: Ch. 7

Week 8: Midterm Exam Week

Week 9 (4/18): Anomalies (2): Sunk Cost Effect, Framing, Preference Reversals

[CVF]: Ch. 12

[TFS]: Ch. 33, 34

Week 10 (4/25): Probability and Belief

[RC]: Ch. 7

[TD]: Ch. 5, 6

[TFS]: Ch. 16, 17

Week 11 (5/2): Uncertainty

[RC]: Ch. 8

[TD]: Ch. 10

[TFS]: Ch. 18

Week 12 (5/9): Expected Utility Theory, Prospect Theory

[TD]: Ch.11

[CVF]: Ch. 2

[TFS]: Ch. 25, 26

Week 13 (5/16): Consumer Behavior

[CVF]: Ch. 15, 16

[PI] : Ch. 2, 3, 8, 10

Week 14 (5/23): Choice over Time

[TD]: Ch. 19

[CVF]: Ch.32

[PI]: Ch.6

*Additional readings may be assigned as the course proceeds. Recommended/related journal articles will be uploaded to the course web page.

<Students Presentation>

Students are expected to make a 15 minutes presentation on one or two chapters from “Thinking Fast and Slow” or “Predictably Irrational”. Signup sheet will be circulated on Feb. 28th. Please check the chapters which might interest you from the following list before coming to the Week 3 class.

[TFS]: “Thinking Fast and Slow”; [PI]: “Predictably Irrational”

<i>[Week 4: March 14]</i> <ol style="list-style-type: none">1. [TFS] Chapter 102. [TFS] Chapter 113. [TFS] Chapter 124. [TFS] Chapter 13	<i>[Week 7: Apr.4]</i> <ol style="list-style-type: none">1. [TFS] Chapter 272. [TFS] Chapter 283. [TFS] Chapter 294. [TFS] Chapter 30	<i>[Week 9: April 18]</i> <ol style="list-style-type: none">1. [TFS] Chapter 312. [TFS] Chapter 323. [TFS] Chapter 334. [TFS] Chapter 34
<i>[Week 10: Apr.25]</i> <ol style="list-style-type: none">1. [TFS] Chapter 162. [TFS] Chapter 173. [TFS] Chapter 18	<i>[Week 13: May16]</i> <ol style="list-style-type: none">1. [PI]: Chapter 22. [PI]: Chapter 33. [PI]: Chapter 84. [PI]: Chapter 10	<i>[Week 14: May 23]</i> <ol style="list-style-type: none">1. [PI]: Chapter 6

<Instruction>

The presentation should be composed of four parts.

1. Introduction of the main concept(s)
2. Examples
3. Personal experience related to the concept(s)
4. Possible research question

The first part introduces the main concept of the chapter. Briefly describe the concept in words.

The second part should contain (a) examples from the chapter and (b) examples from other studies. You can refer to the articles list related to the chapter in the back of the book, starting from page 449. When available, include the information such as (i) example question, (ii) sample size, sample characteristics (who were the sample?), (iii) experiments’ result, (iv) who did the experiment and when.

The third part is based on your personal experience. Anything like the concept happened before to you or those who you know?

The fourth part is to test your capability as an economist/researcher. What kind of research/experiment related to the concept you just introduced do you want to conduct? What would be an interesting research topic? How do you think you can implement/test your idea? Is there any “conflict” between the introduced concept and the economic concepts you’ve studied? Originality is required!

You are expected to prepare a power point presentation. Submit your ppt file to me by e-mail after your presentation, within one or two days.

<Grading Policy for the Presentation>

The presentation consists of 20% of the course grade. Each presentation section (1 through 4) could earn maximum 20 points (= total 80 points). The rest of the points (20 points) will be given based on (a) preparedness and (b) presentation skill. If you have any question regarding the presentation and its grading policy, please consult the instructor.