

BEHAVIORAL ECONOMICS
Syllabus Version (January 2010)

Dr. Thomas Clark Durant

Course Code: G31.3002-03

Time and Place: Tuesdays, 4:00 to 5:45 PM, Room 624

Contact: tcdurant - at- gmail.com or tcdurant - at -nyu.edu

Office Hours: Mondays, 6 to 8 p.m., Room 724

“Man is the only animal that laughs and weeps;
for he is the only animal that is struck with the difference
between what things are, and what they ought to be.”

-- William Hazlitt

COURSE OBJECTIVE:

How do real people execute decisions to quit smoking, commit to a relationship or save for retirement? When is an irrational hothead likely to get a better bargain than somebody who is rational and cool-headed? When is it sensible to follow the herd or imitate your neighbor? When is it counterproductive to offer incentives? This course explores the relatively realistic accounts of decision-making available at the intersection of economics and psychology. We will use these accounts to ask fundamental questions. How do real people make choices? How do they cope with risk and uncertainty? How do they weigh the present against the future? Where do preferences come from? What is the difference between interest and passion? Do we know what made us happy in the past and what will make us happy in the future? What is the role of altruism, equity, or fairness? How do real people cope with cognitive biases? How do they cope with complex tasks that exceed their capabilities? How do they cope with self-deception and weakness of will? How do real people govern or fail to govern themselves?

Classes will focus on a combination of lecture and discussion of assigned readings. Students will be expected to learn the literature presented in class, to think critically and analytically and to present and defend ideas clearly and rigorously.

ASSIGNMENTS:

You are expected to have done the readings for that day and to contribute actively to the discussion. I will use a “present and participating” policy to assess class participation. Email me the day of the class (or the day before) to tell me whether you will be participating. After the first class, you must opt to participate twelve times in the remaining thirteen classes (i.e. you get one free pass). If I don't hear from you, I will assume you are using your pass. Stand up and be counted!

At the beginning of five of the classes, I will have a reading check “quiz.” If you have done the reading, you will have no problem with the quiz.

You are expected to present the day's readings twice throughout the semester. The presentation will entail a simple ten-minute summary, and questions and criticisms to prompt discussion. The presentation must be casual, delivered from your chair, no PowerPoint permitted.

At the end of the semester you will write a research paper that surveys the literature on

the theme or problem of your choice, and then proposes an experiment to explore a hypothesis related to that literature. The paper should be AT MOST thirty pages, with standard spacing and font-size, including the bibliography. The last three class sessions will be devoted to twenty minute presentations: ten minutes presenting the proposed experiment, and another ten minutes for the rest of us to ask questions and make comments.

GRADES:

I will use the standard grading scale (A>90%, B>80%, C>70%...) and I do not intend to curve the grading. Your grade will be based on the following:

- 20% <= Class participation (“present and participating” twelve of thirteen times)
- 20% <= Reading checks
- 10% <= Two class presentations on the reading
- 10% <= One class presentation of your research paper
- 40% <= Research paper

THE READING LIST AND CLASS SCHEDULE

Books to Buy:

- Required =

Daniel Gilbert. 2006. *Stumbling on Happiness*.

Richard Thaler and Cass Sunstein. 2008. *Nudge: Improving Decisions About Health, Wealth and Happiness*.

Dan Ariely. 2008. *Predictably Irrational: The Hidden Forces That Shape Our Decisions*.

Steven Pinker. 1997. *How the Mind Works*.

- Recommended =

Jon Elster. 2007. *Explaining Social Behavior: More Nuts and Bolts for the Social Sciences*.

Class #1: January 19th, 2010

Introduction

Class #2: January 26th, 2010

Cognitive Biases in Evolutionary and Institutional Context

Readings due:

1. Ariely, Dan. 2008. *Predictably Irrational*. Introduction; Ch. 1, “The Truth about Relativity,” through Ch. 9, “The Effect of Expectations.”
2. Haselton Martie and Daniel Nettle. 2006. “The Paranoid Optimist: An Integrative Evolutionary Model of Cognitive Biases.” *Personality and Social Psychology Review* 10(1): 47-66.
3. Glaeser, Ed. 2004. “Psychology and the Market.” *American Economic Review* 94(2): 408-413.

Class #3: February 2nd, 2010

Rational Choice Explanation and Its Proper Domain

Readings due:

1. Ariely, Dan. 2008. *Predictably Irrational*. Ch. 10, “The Power of Price,” through Ch. 13, “Beer and Free Lunches.” pp. 172 - 244 .
2. Smith, Vernon. 2007. *Rationality in Economics: Constructivist and Ecological Forms*. Introduction; Ch. 1, “Rediscovering the Scottish Philosophers”; Ch. 2, “On Two Forms of Rationality.” pp. 1 – 42. [Handout]
3. Becker, Gary. 1962. “Irrational Behavior and Economic Theory.” *Journal of Political Economy* 70(1): 1-13.
4. Gode, Dhananjay and Shyam Sunder. 1997. “What Makes Markets Allocationally Efficient?” *Quarterly Journal of Economics* 112(2): 603-30.

Class #4: February 9th, 2010

The Existence of Systematic Biases in Human Decision-Making

Readings due:

1. Tversky, Amos and Daniel Kahneman. 1974. “Judgment Under Uncertainty: Heuristics and Biases.” *Science* 185: 1124-1131.
2. Gilbert, Daniel. 2006. *Stumbling on Happiness*. Introduction through Ch. 7, “Time Bombs.”

Class #5: February 16th, 2010

Explaining Systematic Biases: the Evolutionary Origins of the Computational Mind

Readings due:

1. Pinker, Steven. 1997. *How the Mind Works*. Ch. 1, “Standard Equipment”; Ch. 5, “Good Ideas.”
2. Cosmides, Leda and John Tooby. 1994. “Better Than Rational: Evolutionary Psychology and the Invisible Hand.” *American Economic Review* 84(2): 327-332.

Class #6: February 23rd, 2010

Error Management from the Agent’s Perspective: Learning and Self-Control

Readings due:

1. Schelling, Thomas. 1984. “Self-Command in Practice, in Policy, and in a Theory of Rational Choice.” *American Economic Review* 74(2): 1-11.
2. List, John. 2004. “Neoclassical Theory Versus Prospect Theory: Evidence From the Marketplace.” *Econometrica* 72(2): 615-625.
3. Heiner, Ron. 1983. “The Origins of Predictable Behavior.” *American Economic Review* 73: 560-595.
4. Gilbert, Daniel. 2006. *Stumbling on Happiness*. Ch. 8, “Paradise Glossed” through Afterword.

Class #7: March 2nd, 2010

Error Management from Organizational and Political Perspectives: Opportunities

Readings due:

1. Thaler, Richard and Cass Sunstein. 2008. *Nudge: Improving Decisions About Health, Wealth and Happiness*. Introduction; Part I, “Humans and Econs”; Chapter 6, “Save More Tomorrow”; Chapter 10, “Prescription Drugs: Part D for Daunting”; Chapter 13, “Improving School Choices.”

Class #8: March 9th, 2010

Error Management from Organizational and Political Perspectives: Hazards

Readings due:

1. Thaler, Richard and Cass Sunstein. 2008. *Nudge: Improving Decisions About Health, Wealth and Happiness*. Part V, “Extensions and Objections.” pp. 229-254.
2. Glaeser, Ed. 2005. “Paternalism and Psychology.” Harvard Institute of Economic Research, Discussion Paper Number 2097.
3. Whitman, Glen and Mario Rizzo. 2007. “Paternalist Slopes.” *NYU Journal of Law and Liberty* 2(3): 411-443 .

NO CLASS on March 16th. SPRING BREAK.

Class #9: March 23rd, 2010

Altruism, Inclusive Fitness and Personal Exchange

Readings due:

1. Smith, Vernon. 1998. “The Two Faces of Adam Smith.” *Southern Economic Journal* 65(1): 1-19.
2. Pinker, Steven. 1999. *How the Mind Works*. Ch. 7, “Family Values.” pp. 425-520.

Class #10 is moved to April 13th. We have NO CLASS on March 30th.

Class #11: April 6th, 2010

Meaning, Purpose and Happiness

Readings due:

1. Layard, Richard. 2006. “Happiness and Public Policy: A Challenge to the Profession.” *Economic Journal* 116 (March): C24-C33.
2. Wilkinson, Will. 2007. “In Pursuit of Happiness Research: Is It Reliable? What Does It Imply for Policy?” http://www.cato.org/pub_display.php?pub_id=8179 (35 pages)
3. Baumeister, and Leonard Newman. 1994. “How Stories Make Sense of Personal Experience: Motives that Shape Autobiographical Narratives.” *Personality and Social Psychology Bulletin* 20(6): 676-690.
4. Pinker, Steven. 1999. *How the Mind Works*. Ch. 8, “The Meaning of Life.”

Class #10 [REVISED DATE]: April 13th, 2010

Two Hundred Thousand Years of Personal Exchange in Anarchy – Fairness, Emotion and Self-Deception

Readings due:

1. Fehr, Ernst and Simon Gächter. "Fairness and Retaliation: the Economics of Reciprocity." *Journal of Economic Perspectives* 14(3): 159-181.
2. Frank, Robert. 1993. "The Strategic Role of the Emotions: Reconciling Over- and Under-Socialized Accounts of Behavior." *Rationality & Society* 5(2): 160-84.
3. Trivers, Robert. 2000. "The Elements of a Scientific Theory of Self-Deception." *Annals of the New York Academy of Sciences* 907: 114-131.

April 20th, 2010

Class #12: Presentations of Original Research

April 24th, 2010 = SATURDAY, 1 pm – 3 pm

Class #13: Presentations of Original Research

April 27th, 2010

Class #14: Presentations of Original Research

*****FINAL PAPERS are due on May 4th, 2010 at midnight. No exceptions.*****