M2 ETE Behavioral Economics

Course title – Intitulé du cours	M2 ETE Behavioral Economics:
Level / Semester – Niveau /semestre	2024-25 S2
School – Composante	Ecole d'Economie de Toulouse
Teacher – Enseignant responsable	Ingela Alger
Other teacher(s) – Autre(s) enseignant(s)	Maximilian Müller
Lecture Hours – Volume Horaire CM	30
Course Language – Langue du cours	English

Teaching staff contacts:

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Office hours by appointment

Course Objectives:

Standard economic theory postulates that individual decisions are the product of perfectly rational and purely self-interested agents. A substantial body of literature documents that these assumptions are often inaccurate, and that individuals display systematic departures from this paradigm. For example, agents face limitations in their ability to process all the relevant information and they are sensitive to the way this information is framed; they evaluate outcomes relative to a reference point and they sometimes take actions which are not in their long-run interest; they tend to be more willing to contribute to public goods than the standard paradigm suggests, and their behavior may be sensitive to others' behavior.

In this course, we discuss some of the most active lines of research aimed at incorporating these "biases" into alternative models of decision-making and strategic interactions. The main goal is to introduce you to a set of theoretical models, but also to present and discuss some evidence on individual departures from the standard economic paradigm and examine how these behaviors affect strategic and market interactions and may inform policy design.

The course is intended to stimulate critical thinking about the fundamental building blocks of economic theory and provide some avenues to enrich them. Our ultimate goal is to introduce participants to a set of questions and tools to enable them to start their own journey into economics research, be it in behavioral economics or in another field.

The course is structured into three parts:

(1) *Non-standard preferences, beliefs, and decision-making* (7.5hrs, Maximilian Müller): In this part of the course, we will first cover the theoretical and empirical literature on reference-dependence and present bias, two core concepts of non-standard preferences in behavioral economics, as well as some of their applications beyond behavioral economics. The rest of this part of the course will be dedicated to non-standard beliefs and non-standard decision-making and, time allowing, to providing an overview of other active strands of research in behavioral economics. The goal of this part of the course is to a) familiarize students with core concepts in theoretical and empirical research in behavioral economics as well as with the dialogue between the two and to b) introduce them to some current topics at the research frontier of behavioral economics.

(2) *Non-standard preferences and policy implications* (12hrs, Ingela Alger): In this part of the course, we will focus on preferences governing behavior in social interactions. A host of theories other than the standard *Homo oeconomicus* preferences have been proposed, and we will examine the most important ones. We will also study several papers that seek to test these theories using economic experiments. Possible policy implications of the findings will also be discussed.

(3) *Preference Evolution* (7.5hrs, Ingela Alger): This part of the course will cover both the basics of evolutionary game theory as well as recent advances in the theory on the evolutionary foundations of preferences. The goal is to reach an understanding of how various factors in our evolutionary past may have shaped the preferences that guide human behavior in strategic interactions today.

Prerequisites :

None beyond the M2 ETE core courses.

Practical information about the sessions:

Students are expected to have read the assigned papers before class and actively participate in class discussions.

Grading system :

Evaluation will be based on class participation (25% of the overall grade), two written research project outlines (50% of the overall grade) and the oral presentation of one of the projects (25% of the overall grade).

A research project outline should contain:

- A clearly defined research question
- A motivation for why the question is worth investigating
- A description of the proposed method (theoretical model, experiment, etc) and a justification for this choice
- A brief summary of the most relevant existing papers
- A concise description of the anticipated contribution as compared to the these papers

- Constraints: maximum of 5 pages of typed text (including references)
- For the presentation, pick one of the projects.
- The two project outlines have to be submitted by **April 22nd**

Bibliography (this is an indicative list, which may come to change somewhat):

Book: *The Foundations of Behavioral Economic Analysis*, Sanjit Dhami, Oxford University Press.

1. **Non-standard preferences, beliefs, and decision-making**

Time preferences

Ericson, K.M., and D. Laibson. 2019. “Intertemporal choice.” In Handbook of Behavioral Economics: Applications and Foundations 1. North-Holland.

Augenblick, N., M. Niederle and C. Sprenger. 2015. Working over time: Dynamic inconsistency in real effort tasks. *Quarterly Journal of Economics, 130(3), 1067-1115*

Reference Dependence

O'Donoghue, Ted, and Charles Sprenger. 2018. “Reference-Dependent Preferences.” Handbook of Behavioral Economics: Applications and Foundations 1.

Kahneman, D., and A. Tversky. 1979. “Prospect theory: An analysis of decision under risk.” *Econometrica, 47(2), 263-292*

Kőszegi, Botond, and Matthew Rabin. "A model of reference-dependent preferences." *The Quarterly Journal of Economics* 121.4 (2006): 1133-1165.

Thakral, Neil, and Linh T. Tô. "Daily labor supply and adaptive reference points." *American Economic Review* 111.8 (2021): 2417-2443.

Non-standard beliefs

Benjamin, Daniel J. 2019. “Errors in probabilistic reasoning and judgment biases.” Handbook of Behavioral Economics: Applications and Foundations 1.

Loewenstein, George, Ted O'Donoghue, and Matthew Rabin. 2003. “Projection Bias in Predicting Future Utility.” *Quarterly Journal of Economics*.

2. **Non-standard preferences in social interactions**

Levine, D. (1998) “Modelling altruism and spite in experiments,” *Review of Economic Dynamics*, 1, 593-622.

Alger, I. and J.W. Weibull (2010) “Kinship, incentives and evolution,” *American Economic Review*, 100, 1725-1758.

Rotemberg, J. (1994) ``Human relations in the workplace,'' *Journal of Political Economy*, 102, 684-717.

Lindbeck, A. and J.W. Weibull (1988) "Altruism and time consistency: the economics of *fait accompli*," *Journal of Political Economy*, 96, 1165-1182.

Fehr, E., and K. Schmidt (1999) "A theory of fairness, competition, and cooperation," *Quarterly Journal of Economics*, 114, 817-868.

Charness, G., and M. Rabin (2002) "Understanding social preferences with simple tests," *Quarterly Journal of Economics,* 117, 817-869.

Fisman, B.R., S. Kariv, and D. Markovits (2007) "Individual preferences for giving," *American Economic Review*, 97, 1858-1876.

Bruhin, A., Fehr, E., and Schunk, D. (2019) "The many faces of human sociality: uncovering the distribution and stability of social preferences," *Journal of the European Economic Association*, 17, 1025–1069.

Andreoni, J. (1990) "Impure altruism and donations to public goods: a theory of warm-glow giving," *Economic Journal*, 100, 464-477.

Bénabou, R. and J. Tirole (2006) "Incentives and Prosocial Behavior," *American Economic Review*, 96, 1652-1678.

Alger, I. and J.W. Weibull (2013) "Homo Moralis---Preference Evolution under Incomplete Information and Assortative Matching," *Econometrica*, 81:2269-2302.

Alger, I., and J.W. Weibull (2017) "Strategic Behavior of Moralists and Altruists," *Games*, 8(3), 38.

Gneezy, U., A. Kajackaite, and J. Sobel (2018) "Lying aversion and the size of the lie," *American Economic Review*, *108*(2), 419–453.

Nagin, D. S., Rebitzer, J., Sanders, S., and Taylor, L. (2002) "Monitoring , motivation , and management : the determinants of opportunistic behavior in a field experiment," *American Economic Review*, 92, 850–873.

Bernheim, D., L. Braghieri, A. Martínez-Marquina, and D. Zuckerman (2021) "A theory of chosen preferences," *American Economic Review*, 111 ,720-54.

Chen , D.L., and M. Schonger (2022) "Social preferences or sacred values? Theory and evidence of deontological motivations," *Science Advances* 8, eabb3925.

3. **Preference Evolution**

Chapter 2. Weibull, J.W. (1995) Evolutionary Game Theory. Cambridge MA: MIT Press.

Alger, I. and J. Weibull (2010) "Kinship, incentives and evolution," *American Economic Review*, 100, 1725-1758.

Alger, I., and J. Weibull (2013) "Homo moralis---preference evolution under incomplete information and assortative matching," *Econometrica*, 81, 2269-2302.

Alger, I., and J. Weibull (2016) "Evolution and Kantian morality," *Games and Economic Behavior*, 98, 56-67.

Alger, I., J.W. Weibull, and L. Lehmann (2020) "Evolution of preferences in structured populations: Genes, guns, and culture," *Journal of Economic Theory*, 185, 104951.

Dekel, E., J.C. Ely, and O. Yilankaya (2007) “Evolution of preferences,” *Review of Economic Studies*, 74, 685-704.

Fershtman, C., and K. Judd (1987). “Equilibrium incentives in oligopoly,” *American Economic Review, 77*, 927-940.

Heifetz, A., C. Shannon, and Y. Spiegel (2007) “What to maximize if you must,” *Journal of Economic Theory*, 133, 31-57.

Ok, E.A., and F. Vega-Redondo (2001) “On the evolution of individualistic preferences: an incomplete information scenario,” *Journal of Economic Theory*, 97, 231-254.

Bisin, A. and T. Verdier (2023) “Advances in the Economic Theory of Cultural Transmission,” Annual Review of Economics, Vol. 15, 63-89.

Session planning :

Non-standard preferences, beliefs, and decision-making: Maximilian Müller (7.5 hours)

Preferences governing behavior in social interactions: Ingela Alger (12 hours)

Preference Evolution: Ingela Alger (7.5 hours)

Project presentations (3 hours)

Distance learning *:*

If the sanitary situation requires it, lectures will be held on zoom.