

Behavioral Economics

ECON 6960-001/5960-001 & ENTP 6850-001/5850-001

Spring 2015, M & W, 10:45am-12:05pm, SFEBB 5160A

Instructors

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Course description

“All economics rests on some sort of implicit psychology. The only question is whether the implicit psychology is good or bad. We think it is simply unwise, and inefficient, to do economics without paying some attention to good psychology.”

—Colin Camerer and George Loewenstein, *Advances in Behavioral Economics*, 2002, Introduction.

Behavioral economics lies at the intersection of psychology and economics and includes a collection of studies that are perhaps the fastest growing research streams today, and some of the most exciting. The interface of psychology and economics has a long history, one that began as a unified understanding of human activity. Interestingly, economics books that are now considered classics (Adam Smith, Marshall, Fisher, Edgeworth) were filled with psychological insight and did not insist that agents were always rational or self-interested. Early in this century, however, psychology and economics took different methodological paths and this changed.

As part of the effort to build just societies there was an attempt to quantify human happiness. This, along with a belief in a mechanistic universe and a penchant for the gambling mathematics led to a simple, formal approach called, “rational choice theory”, which formed the foundation of understanding how *economic* human agents act. Psychologists, on the other hand, began to use experiments to quantify how people think and behave, but did not seek to express theories in the mathematical terms of rational choice theory. Economists turned to highly simplified models of individual agents as building blocks for both theories of markets (general equilibrium) and strategic behavior (game theory).

Behavioral economics can be seen as an effort to merge the two back together again. The initial catalyst was the growing evidence that rational choice theory fails, as the basis for human decision making in economics, to correctly predict choices humans actually make. Humans are much less like computers and much less “rational” than originally thought.

In this class we will look briefly at the historical context within which rational choice theory was born before digging into the response to it known as, behavioral economics. The primary vehicle for this will be the only assigned book, *Thinking Fast and Slow* by Kahneman (who won a Nobel Prize for his “discovery” of behavioral economics) which we will work through at length for the bulk of the first half of the semester. This will demand digging into psychology (the study of behavior) and cognitive science (the study of the mind).

The second half of the course will dig deeper into various forms of game theory to explore how economics has recently incorporated the insights and findings from psychology and experiments and what it can, in return, bring to the understanding of these phenomena before examining implications that follow for the workings of markets and policy.

Topic outline for the course:

1. Historical context of society-building, utilitarianism, and gambling
2. The formation of rational choice theory
3. *Thinking Fast & Slow*
4. Brief introduction to game theory
5. Games for testing other regarding preferences
 - Ultimatum game
 - Dictator game
 - Trust game
 - Gift exchange game
 - Public goods game
6. Models of social preferences
 - Outcome based models
 - Intention or belief based models
 - Hybrid models

This course will be taught by two professors with McBride leading most of the first half and Bhattacharya leading most of the second half. The main material for the first half will be the Kahneman book plus articles distributed on Canvas and the main material for the second half will be Canvas articles.

What’s cool for you as a student is the fact that you get will be getting “two heads for the price of one”, along with two different perspectives—one from a professional cognitive scientist and

one from a professional economist with an expertise in preference theory. We like to think that this will result in a richer learning experience for you.

There are no pre-requisites for this class and we encourage people to audit the course, both from within and outside the U. Active discussion of the material will be required with roughly every other class meeting entirely built around discussing and digesting the material to our mutual liking.

Exams

Each segment of the course will have one quiz. The course grade will be based on aggregate performance in the two exams.

Course grade criterion

$A \geq 95\%$, $95\% > A- \geq 90\%$, $90\% > B+ \geq 87\%$, $87\% > B \geq 83\%$, $83\% > B- \geq 80\%$,
 $80\% > C+ \geq 77\%$, $77\% > C \geq 73\%$, $73\% > C- \geq 70\%$, $70\% > D+ \geq 65\%$, $65\% > D \geq 60\%$,
 $60\% > D- \geq 50\%$, $50\% > E$

Americans with Disabilities Act (ADA) Statement

The University of Utah seeks to provide equal access to its programs, services and activities for people with disabilities. If you will need accommodations in the class, reasonable prior notice needs to be given to the Center for Disability Services, 162 Olpin Union Building, 581-5020 (V/TDD). CDS will work with you and the instructor to make arrangements for accommodations. All information in this course can be made available in alternative format with prior notification to the Center for Disability Services. (www.hr.utah.edu/oec/ada/guide/faculty/)

Wellness Statement

Personal concerns such as stress, anxiety, relationship difficulties, depression, cross-cultural differences, etc., can interfere with a student's ability to succeed and thrive at the University of Utah. For helpful resources contact the Center for Student Wellness - www.wellness.utah.edu; 801-581-7776.