

Behavioral Economics

Economics 4374

University of Houston
T-Th 8:30-10:00am

Spring 2021

Instructor: Dr. Willa Friedman (she/her/hers)

Office hours: Tuesday/Thursday 9:50-10:30am (after class, on Zoom), or by appointment

Email: whfriedman@uh.edu

1 Summary

Behavioral Economics is a new and growing field of economics. In behavioral economics, we explore the ways in which the predictions of classical economic theory fail in the real world and attempt to modify the theories to take into consideration these deviations and better explain and predict human behavior. This course will introduce you to the basic findings of this field and give you the tools to formulate new theories, test predictions, and apply the insights from behavioral economics to the real world. By the end of the semester, you will be able to:

- Use economic reasoning to understand and discuss human behavior,
- Understand and produce formal models of decision-making, and
- Think through the implications of behavioral economics research findings for basic economic and policy questions.

2 Readings

This is a new field. As a result, there is not yet a great textbook. Instead, we will use a selection of readings to be distributed and:

- Kahneman, Daniel. *Thinking, Fast and Slow*, Macmillan, 2011. (reprint: Farrar, Straus, and Geroux; 2013)

It is available online. The first assignment based on a reading from this book will be due **February 2**.

Fortunately, behavioral economics is popular. There are new articles about behavioral economics concepts in the media every day. Readings will be assigned each Tuesday, and you will be expected to have completed them by the following Tuesday. In addition to *Thinking, Fast and Slow* these will include academic and popular press articles, which will be posted on Blackboard.

3 Requirements

As you will see when we cover inter-temporal choice, students tend to do better with lots of small assignments. Procrastination can be really hard to fight! So I'm going to make things easy on you and not let you procrastinate. There will be an assignment due nearly every week. Many of these will be small. A few will be a bit larger.

All must be turned in via Blackboard. If you are unable to submit it in time via Blackboard, in exceptional circumstances, you can email it to me, before the deadline. Late assignments will not be accepted.

Memos: In weeks without an exam or a memo due, you will have small assignments. Most of these will be short (1-2 page) memos about either assigned readings or discussing another real-world application of a topic that we are covering. Others will ask you to write and solve mathematical models. Some will ask you to come in with a few questions about the week's readings. The last ones will ask you to design and conduct an experiment. There will be a total of 11, and I will drop the lowest grade. These will be graded with the following scale:

- 0 : You did not turn in the assignment.
- ✓- (5/10): You turned something in that represents your own work, shows very little effort.
- ✓(7/10) You completed the assignment as requested.
- ✓+ (9/10) You completed the assignment exactly as requested, and it is well-done (good insights, clear writing, etc.).
- ✓++ (10/10) You completed the assignment exactly as requested, and it is exceptionally well-done (great insights, stellar writing, thought-provoking, etc.).

Exams: There will be one midterm and a final. The mid-term will be during class on **March 15**. The final will be during the university scheduled exam slot for this class time, **8-11am, May 13**.

Notes on regrade requests All regrade requests must be made in writing. There is sufficient evidence - some of which will be discussed in this class - that suggests that irrelevant factors about your identity or how you look or how you present yourself could influence my feelings of generosity when speaking to you and my decisions about whether to award you more points, or to remove points. I do not want these factors to change your grade. To reduce the influence of such factors, I will only consider regrade requests submitted in writing, and I will consult with other faculty members when there is uncertainty.

Attendance and Participation I expect you to (virtually) attend all classes, to come prepared, and to participate in discussions and experiments. Many behavioral economics studies are based on experiments in small groups (like this class), and hopefully we will be able to replicate at least a few of these during the semester, with your help. Participation will be a (small) part of your grade.

4 Pandemic Adjustments

First, thanks for your patience. I know this is frustrating, or worse, but I hope we can all still learn a lot this semester. I would like to encourage as much interaction as possible. This will mean big and small and medium-group discussions, some group projects (with individual grades), and regular office hours.

How will this class be different from the past?

1. I have adjusted the grading to reduce the weight of exams compared with the in-person version of the class.
2. You will have more time during class to work together on practice problems and assignments (via Zoom).
3. We will adjust more as we go.

Communication

1. **Zoom:** Class will meet on Zoom.
 - Access to a webcam is required for students participating remotely in this course. Webcams must be turned on during exams. You should also be able to turn on your webcam at anytime during class.
2. **Blackboard:** Assignments will be available and turned in on Blackboard, and I will also post announcements and slides there.
3. **email:** I will send email updates as needed. It is your responsibility to make sure that I have an email address for you that you check.

- Please email me if you have questions or concerns, and I'll try to get back to you reasonably quickly.

5 Approximate outline of topics to be covered

Introduction — 2 lectures

- What is behavioral economics?
- What is classical economics?
- READINGS:
 - Daniel Kahneman's Nobel Prize Lecture

Reference Dependent Preference — 4 lectures

- Reference points
- Prospect theory
 - Loss-aversion
 - Risk-seeking in the loss domain

Intertemporal Choice - 7 lectures

- Hyperbolic discounting
- Naive and sophisticated decision-makers
- Projection bias

Experiments in Economics - 2 lectures

- Why do we use experiments?
- How do we run experiments?
- How do we analyze and interpret the results?

Discrimination, Identity, Policy Implications - 1 lecture

- Implicit Associations
- Honesty
- Libertarian paternalism
- Defaults

Bounded Rationality and Heuristics - 5 lectures

- Mental accounting
- Over-confidence
- Cognitive biases: Representativeness bias, Availability bias, Sunk-cost fallacy, Hot-hand fallacy, Base-rate neglect, Debiasing, Anchoring, etc.
- Scarcity

Social Preferences - 2 lectures

- Fairness
- Altruism
- Reciprocity

6 Grading

- 40% 11 short assignments (I will drop the lowest grade)
- 20% experiment write-up (Assignment 12)
- 15% 1 midterm
- 15% 1 final
- 10% - participation

7 General Policies

- Please follow the university's academic honesty policy. I will take violations very seriously. The policy can be found in the Student Handbook and online (<http://www.uh.edu/provost/academic-affairs/policy-guidelines/honesty-policy/academic-honesty-policy.pdf>).
- If you need special accommodations, please let me know/provide documentation as soon as possible. See below for more details.

8 Services Available

Counseling and Psychological Services: Counseling and Psychological Services (CAPS) can help students who are having difficulties managing stress, adjusting to college, or feeling sad and hopeless. You can reach CAPS (www.uh.edu/caps) by calling 713-743-5454 during and after business hours for routine appointments or if you or someone you know is in crisis. No appointment is necessary for the “Let’s Talk” program, a drop-in

consultation service at convenient locations and hours around campus. http://www.uh.edu/caps/outreach/lets_talk.html

Students with Disabilities: The University of Houston System complies with Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990, pertaining to the provision of reasonable academic adjustments/auxiliary aids for students with a disability. In accordance with Section 504 and ADA guidelines, the University of Houston strives to provide reasonable academic adjustments/auxiliary aids to students who request and require them. Students seeking accommodation in this course should contact the instructor after obtaining the appropriate documentation through the UH Center for Students with Disabilities.

Interim Undergraduate Grading Policy - NO LONGER IN PLACE The interim grading policy that was in place the past two semesters in response to COVID is no longer in place. Under this policy, students had the option of converting final assigned letter grades to S or NCR on their transcripts. This will no longer be possible in Spring 2021.

9 Policies from the Provost

Excused Absence Policy Regular class attendance, participation, and engagement in coursework are important contributors to student success. Absences may be excused as provided in the University of Houston Undergraduate Excused Absence Policy and Graduate Excused Absence Policy for reasons including: medical illness of student or close relative, death of a close family member, legal or government proceeding that a student is obligated to attend, recognized professional and educational activities where the student is presenting, and University-sponsored activity or athletic competition. Under these policies, students with excused absences will be provided with an opportunity to make up any quiz, exam or other work that contributes to the course grade or a satisfactory alternative. Please read the full policy for details regarding reasons for excused absences, the approval process, and extended absences. Additional policies address absences related to military service, religious holy days, pregnancy and related conditions, and disability.

Recording class Students may not record all or part of class, livestream all or part of class, or make/distribute screen captures, without advanced written consent of the instructor. If you have or think you may have a disability such that you need to record class-related activities, please contact the Center for Students with DisABILITIES. If you have an accommodation to record class-related activities, those recordings may not be shared with any other student, whether in this course or not, or with any other person or on any other platform. Classes may be recorded by the instructor. Students may use instructor's recordings for their own studying and notetaking. Instructor's recordings are not authorized to be shared with anyone without the prior written approval of the instructor. Failure to comply with requirements regarding recordings will result in a disciplinary referral to the Dean of Students Office and may result in disciplinary action.

Changing Syllabus: Due to the changing nature of the COVID-19 pandemic, please note that the instructor may need to make modifications to the course syllabus and may do so at any time. Notice of such changes will be announced as quickly as possible through email and Blackboard.

10 Calendar

JAN 19	INTRODUCTION	JAN 21	
JAN 26	**assignment 1 due**	JAN 28	
FEB 2	**assignment 2 due**	FEB 4	
FEB 9	**assignment 3 due**	FEB 11	
FEB 16	**assignment 4 due**	FEB 18	
FEB 23	**assignment 5 due**	FEB 25	
MAR 2	**assignment 6 due**	MAR 4	
MAR 9		MAR 11	**MIDTERM**
MAR 16	SPRING BREAK	MAR 18	SPRING BREAK
MAR 23	**assignment 7 due**	MAR 25	
MAR 30	**assignment 8 due**	APR 1	
APR 6	**assignment 9 due**	APR 8	
APR 13	**assignment 10 due**	APR 15	
APR 20	**assignment 11 due	APR 22	
APR 27	**assignment 12 due**	APR 29	
XX	FINAL		