



COURSE SYLLABUS

Course: **ECON 4423 Behavioral Economics**

Prerequisite: (ECON 2013 and ECON 2023) or ECON 2143.

Course Description:

This course will examine some basic assumptions about human behavior common in economics (people are purely self-interested; can do statistics really well; have preferences only over final outcomes; exponentially discount the future; have well-defined and stable preferences, and more). It will investigate how these assumptions came to be, their benefits and shortcomings, and how understanding psychology can lead to better assumptions, and more realistic economic models.

The course is not a fundamentally different way of doing economics. Like all economics, it is trying to understand the driving force of various economic behaviors. Unlike economics, it will spend a great amount of time looking at lab experiments to find whether observed behavior is consistent with the assumptions being used. In the course, we will examine evidence from psychology and elsewhere, and strive to incorporate a richer, more realistic set of assumptions into our models.

Prerequisites:

This class builds on classical economics. For that reason, students taking this course are assumed to be familiar with common optimization techniques (taking derivatives). If you don't remember your calculus, don't worry – I will do a review at the beginning of the course.

Attendance:

While class attendance is not required, it is strongly recommended. Much of the learning that takes place in this course occurs during the lectures. There are slides that accompany the lectures, but they are difficult to comprehend without attending the lecture. To encourage attendance, I will distribute the slides to only those students that attend lectures. Therefore, I will take attendance. If you are not in class, I will remove your name from the distribution email list for lecture slides. To be added back onto the email list, please come to my office during office hours.

Requirements:

1. **Problem Sets:** There will be 4 problem sets assigned during the semester and they will be hard. You are encouraged to work on them with classmates BUT you must write up the solutions on your own, using your own words and understanding. I am available during office hours if you need additional help. The due dates are given below:

	On Blackboard	Due Date
Problem Set #1	WED, SEPT 5 th	WED, SEPT 19 th
Problem Set #2	WED, SEPT 19 th	WED, OCT 3 rd
Problem Set #3	WED, OCT 31 st	WED, NOV 14 th
Problem Set #4	WED, NOV 14 th	WED, DEC 5 th

2. Midterm: In-class midterm on Monday, October 22nd.
3. Final: This test will cover the second-half of the course, and will be held on Wednesday, December 12th from 3:15 PM – 5:15 PM.

The exams will be closed book. They will be based on slides, lectures, and problem sets. They will be designed to be very passable for those attending lectures, seriously engaging in the problem sets, and doing the reading; they will mostly reflect the basic problems from the problem sets.

Grading:

The course grade will be a weighted average of three factors: your average score on the four problem sets (40%), your midterm score (35%), and your final exam score (35%). The lowest of your three grades will be weighted 10% less than listed above, so to make the weights total to 100%. Except for emergency situations, late problem sets will be heavily penalized (at least 40% per day) and you will not be allowed to make up any missed exams.

Grading complaints are considered when there has been a grading error. If you think there has been one, please submit a written petition pointing out the error. All petitions must be received at the start of class following the return of the graded problem set/exams. Note that the entire problem set/exam will be re-graded, and the overall score can go up or down.

Readings:

As the field is relatively new, there is still no good textbook in behavioral economics. The only required reading will be the slides, which will be emailed at the end of each lecture. A list of references will be provided that can be used for supplemental reading by those who are interested in exploring a specific topic more deeply. In addition, if you need another perspective on the material, you can consult the background readings suggested below:

Nick Wilkinson and Matthias Klaes, *An Introduction to Behavioral Economics*.

Daniel Kahneman, *Thinking Fast and Slow*

Approximate Outline:

Topic	Lectures	Description
Introduction	2	Themes in psychology and economics, illustrated through a few examples
Reference-Dependent Preferences	4	Kahneman/Tversky classic experiments; Prospect theory; Market implications: labor supply, marketing, industrial organization.

Choice Over Time	9	Samuelson's exponential-discounting; Self-control and hyperbolic discounting; Harmful substances and govt policy; Anxiety, optimism & anticipation; Misperception of utility.
Bounded Rationality	3	Heuristics and biases; Views of bounded rationality;
Malleability and Inaccessibility of Preferences	2	Construction of preference. Choice sets and choices. Piecemeal preferences.
Behavioral Game Theory	4	Game theory & behavioral game theory; Irrational players and equilibrium.
Social Preferences	3	Classic experiments. "Distributional" and "intention" models. Labor markets: wage setting and unemployment.
Firms' Reactions to Behavioral Consumers	1	The pricing of credit cards and mortgages. Shrouded attributes. Principles for intervention.
Behavioral Finance	1	Arbitrage and limits thereof. Market efficiency and economic efficiency. Small investors.

Academic Dishonesty:

Students are expected to adhere to the University's policy regarding academic honesty. It is explained in the Catalog of Studies, and can be found online at:

http://catalogofstudies.uark.edu/1213-Undergraduate_Catalog-1.pdf

Accommodations for Students with Disabilities:

University of Arkansas Academic Policy requires that students with disabilities are provided reasonable accommodations to ensure their equal access to course content. If you have a documented disability and require accommodations, please contact me privately at the beginning of the semester to make arrangements for necessary classroom adjustments. Please note, you must first verify your eligibility for these through the Center for Educational Access (contact 479-575-3104 or visit <http://cea.uark.edu> for more information on registration procedures).

Inclement Weather Policy:

In case of severe weather, a notification will be sent out via Blackboard regarding cancellation of any class. Further instructions regarding the make-up of missed class will also be posted on the Blackboard site.