

**SOME BASIC BACKGROUND READING**  
**2002 SUMMER INSTITUTE IN BEHAVIORAL ECONOMICS**

Dear Campers:

You will soon be receiving in the mail a large packet of readings. *Please read them all.* Some background on this request: We have in the past admonished campers to read all the readings, and by all appearances, to a person they have done so. Then we got complaints from students that we repeated too much of it during the institute. Last time all campers once more seemed to have done all the readings, and we drastically limited the amount of repetition. This seemed to work much better. There will necessarily be some repetition of these basic readings, but we will try to keep it to a minimum. The papers listed below, therefore, do not include those that will be presented during camp, which we will distribute as presented. The required readings below are a lot, we know. But you may have read many of them already, and we feel it will make camp more productive for all. So we are really going to count on you guys doing all the readings just like the previous groups.

Also, we plan to have some open-ended question and answer and discussion sessions near the beginning of camp: we would like to request that you each formulate two to five short questions about the readings (to be expressed verbally) in preparation for camp. We think this would be a good way to get such discussions going, and we and your fellow campers and you yourselves would probably benefit from seeing what strikes you as important questions. We, of course, won't have time to discuss most questions in an organized session, but they will naturally come up at various times throughout the camp.

Some of the readings we'd like you to do are contained in several books that we plan to send you. These are: The Winner's Curse, by Richard Thaler, Choices, Values, and Frames (edited by Kahneman and Tversky), Choice Over Time (edited by Elster and Loewenstein), Advances in Behavioral Finance (edited by Thaler), and Quasi-Rational Economics (by Thaler). We do not expect you to read all parts of these books, but only those papers included in the list below.

### **Introduction**

Thaler, Richard H. "Introduction," in The Winner's Curse, pp. 1-5.

Thaler, Richard H.. "The Psychology and Economics Conference Handbook: Comments on Simon, on Einhorn and Hogarth, and on Tversky and Kahneman," in Rational Choice, Robin M. Hogarth and Melvin W. Reder, Eds., Chicago: Univ. of Chicago Press, 1987, pp. 95-100. Reprinted in Quasi-Rational Economics

Rabin, Matthew. "Psychology and Economics," Journal of Economic Literature, March, 1998, Vol. 36, pp. 11-46. (Longer version "Psychology and Economics," Berkeley Department of Economics Working Paper, No. 97-251, January, 1997, on Matthew's web site at <http://elsa.berkeley.edu/~rabin/index.html> .)

Camerer, C. and Loewenstein, G. "Behavioral Economics: Past, Present, Future" Introduction to Camerer, Loewenstein and Rabin, Advances in Behavioral Economics. Forthcoming.

Thaler, R. "Towards a Positive Theory of Consumer Choice." *Journal of Economic Behavior and Organization*, reprinted in *Quasi-Rational Economics*

Camerer, Colin. "Individual Decision Making," in *The Handbook of Experimental Economics*, John H. Kagel and Alvin E. Roth Eds., Princeton: Princeton Univ. Press, 1995, Chapter 8, pp. 587-703. (Covers material for both expected utility and heuristics and biases).

### **Hedonics and Preferences**

Kahneman, Danny "New Challenges to the Rationality Assumption," *Journal of Institutional and Theoretical Economics*, 1994, 150(1), pp. 18-36. Reprinted in *Choices, Values, and Frames*.

Kahneman, Daniel, "Experiences Utility and Objective happiness: A Moment-based Approach," in *Choices, Values, and Frames*.

Fischhoff, Baruch, "Value Elicitation: Is There Anything There?" in *Choices, Values, and Frames*.

Ariely, D., Loewenstein, G. and Prelec, D. (forthcoming). Coherent arbitrariness: Stable demand curves without stable preferences. *Quarterly Journal of Economics*.

### **Loss Aversion**

Kahneman, Daniel, Jack L. Knetsch, and Richard H. Thaler. "Experimental Tests of the Endowment Effect and the Coase Theorem," *Journal of Political Economy*, 1990, Vol. 98, pp.1325-1348.

Kahneman, Daniel, Jack L. Knetsch, and Richard H. Thaler. "The Endowment Effect, Loss Aversion, and Status Quo Bias," in *The Winner's Curse*

Kahneman, Daniel and Amos Tversky. "Prospect Theory: An Analysis of Decision Under Risk," *Econometrica*, March, 1997, Vol. 47, p. 263-291. Reprinted in *Choices, Values, and Frames*.

### **Non-Expected Utility and Bracketing**

Kahneman, D. and Lovallo, Dan, "Timid Choices and Bold Forecasts: A Cognitive Perspective on Risk Taking," reprinted in *Choices, Values, and Frames*

Camerer, Colin, Linda Babcock, George Loewenstein, and Richard Thaler. "Labor Supply of New York City Cab Drivers: One Day at a Time," shortened version of paper by the same title, *Quarterly Journal of Economics*, May, 1997, pp. 109-126.

Benartzi, Shlomo and Richard Thaler, "Myopic loss aversion and the equity premium puzzle," *Quarterly Journal of Economics* v110, n1, February 1995, 73-92.

Rabin, Matthew. "Risk Aversion and Expected-Utility Theory: A Calibration Theorem," *Econometrica*, September 2000.

## **Framing and Mental Accounting**

Tversky, A. and Kahneman, D. "Rational Choice and the Framing of Decisions," *Choices, Values, and Frames*.

Thaler, Richard. "Mental Accounting Matters," *Journal of Behavioral Decision Making*, September, 1999, Vol. 12(3), p. 183-206. Reprinted in *Choices, Values, and Frames*.

Thaler, Richard H.. "Savings, Fungibility, and Mental Accounts," in *The Winner's Curse*.

## **Heuristic + Biases**

Kahneman, Daniel and Amos Tversky. "Introduction." In JUDGEMENT UNDER UNCERTAINTY: HEURISTICS AND BIASES, Ch. 1, pp. 3-22.

Griffin, D. and A. Tversky (1992). "The Weighing of Evidence and the Determinants of Confidence," *Cognitive Psychology*, **24**, 411-435.

Rabin, M. and J. Schrag (1999). "First Impressions Matter: A Model of Confirmatory Bias," *Quarterly Journal of Economics*, **114**, 37-82.

## **Finance**

Shleifer, Andrei, "Are Financial Markets Efficient?" in *Inefficient Markets: An Introduction to Behavioral Finance*, Oxford: Oxford University Press, 2000, pp. 1-27.

Shleifer, Andrei, "Open Problems," in *Inefficient Markets: An Introduction to Behavioral Finance*, Oxford: Oxford University Press, 2000, pp. 175-197.

## **Present-Biased Preferences and Intertemporal Choice**

Frederick, S., Loewenstein, G. and O'Donoghue, T. (2001), "Time Discounting: A Critical Review" (O'Donoghue's Cornell University Economics web page at <http://people.cornell.edu/pages/edo1/> , linked from Loewenstein's homepage at <http://hss.cmu.edu/departments/sds/faculty/loewenstein.html> ).

O'Donoghue, Ted and Matthew Rabin. "Doing it Now or Later," *American Economic Review*, March, 1999, 89(1), pp. 103-124.

Laibson, David. "Golden Eggs and Hyperbolic Discounting," *Quarterly Journal of Economics*, May 1997.

George-Marios Angeletos, Andrea Repetto, Jeremy Tobacman, and Stephen Weinberg, "The Hyperbolic Consumption Model: Calibration, Simulation, and Empirical Evaluation" *Journal of Economic Perspectives*, August 2001, pp. 47-68.

O'Donoghue, T. and M. Rabin (2001). "Choice and Procrastination," *Quarterly Journal of Economics*, **116**, 121-160.

Loewenstein, G. (1996). Out of control: visceral influences on behavior. *Organizational Behavior and Human Decision Processes*, **65**, 272-92.

### **Behavioral Game Theory and Social Preferences**

Kahneman, Knetsch, and Thaler, "Fairness as a Constraint on Profits: Entitlements in the Market," *American Economic Review*, **76**(4), 1986, pp. 728-741. Reprinted in *Choices, Values, and Frames*

Camerer Colin. "Progress in Behavioral Game Theory," *Journal of Economic Perspectives*, 1997, Vol. 11, No. 4, pp. 167-199.

Fehr, Ernst and Simon Gächter. "Reciprocity and Economics: The Economic Implications of Homo Reciprocans," *European Economic Review*, 1998, Vol. 42, pp. 845-859.

Babcock, Linda and George Loewenstein. "Explaining Bargaining Impasse: The Role of Self-Serving Biases," *Journal of Economic Perspectives*, 1997, Vol. 11, No. 1, pp. 109-126.

Charness, Gary and Matthew Rabin. "Understanding Social Preferences with Simple Tests," *Quarterly Journal of Economics*, August 2002.

Camerer, C; Ho, T-H, "Experience-weighted attraction learning in normal form games," *Econometrica*, 1999 JUL, V67 N4:827-874