

Reading For Summer Institute In Behavioral Economics

Dear Campers:

You will soon be receiving in the mail a large packet of readings. We also hope to send you a copy of *The Winner's Curse*, by Richard Thaler, and to have sent from the Russell Sage Foundation three more books, *Choice Over Time* (edited by Elster and Loewenstein), *Advances in Behavioral Finance* (edited by Thaler) and *Quasi-Rational Economics* (by Thaler).

Below is the list of papers we will be sending you. They are required. Please read them all.

Some background on this request: We admonished campers two years ago to likewise read all the readings, and by all appearances to a person they did so. Then we repeated too much of it, and got complaints for repeating much of it. At the camp itself, we will necessarily be some repetition of these basic readings. But we shall try to keep this to a minimum, so we are really going to count on you guys doing all the readings just like the last group. It is going to be very nice to have the whole group with a very common background reading. So, while we realize that there is a lot here, we really do ask that you read it all.

Also, we plan to have a couple of 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.

The list is meant to give you a general sense of some of the important background research, not necessarily a well-crafted full range. We will supply more complete lists of good readings at camp. The readings below do not include papers that will be presented by speakers during camp. We will either send those papers in early July or have them waiting you as you arrive to camp.

Introduction

Thaler, Richard H. "Introduction," in *The Winner's Curse: Paradoxes and Anomalies of Economic Life*, Richard H. Thaler, Ed., Princeton: Princeton Univ. Press, 1992, pp. 1-5.

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.)

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.

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* Richard H. Thaler, Ed., Princeton: Princeton Univ. Press, 1992, pp. 63-78.

Non-Expected Utility and Bracketing

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 both Non-Expected Utility and Heuristics and Biases)

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

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.

Mental Accounting

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*, New York: Free Press, 1992, pp. 107-121.

Heuristic + Biases

Relevant Sections of Camerer and Rabin papers above.

Rabin, Matthew and J. Schrag. "First Impressions Matter: A Model of Confirmatory Bias," *Quarterly Journal of Economics*, February, 1999, pp.37-82.

Self-Serving Biases

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.

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.

Shleifer, Andrei, "Noise Trader Risk in Financial Markets," in *Inefficient Markets: An Introduction to Behavioral Finance*, Oxford: Oxford University Press, 2000, pp. 28-52. (Based on De Long, Shleifer, Summers, and Waldmann (1990), "Noise Trader Risk in Financial Markets," *Journal of Political Economy*,

Odean, Terrance, "Are investors reluctant to realize their losses?," *Journal of Finance* v53, n5, October 1998: 1775-1798.

Present-Biased Preferences

Loewenstein, George and Richard H. Thaler. "Anomalies: Intertemporal Choice," *Journal of Economic Perspectives*, 1989, Vol. 3, No. 4, pp. 181-193. (Reprinted in Winner's Curse).

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.

Behavioral Game Theory and Social Preferences

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

Rabin, Matthew. "Incorporating Fairness into Game Theory and Economics," *American Economic Review*, 1993, Vol. 83, No. 5, pp. 1281-1302.

Fehr, Ernst and Klaus M. Schmidt. "A Theory of Fairness, Competition, and Cooperation," *The Quarterly Journal of Economics*, July 1999, pp. 817-868.

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

Camerer, Colin, Teck-Hua Ho, and Juin-Kuan Chong, "Sophisticated EWA Learning and Strategic Teaching in Repeated Games," working paper, April 2000. (Available from Ho's web site.)

Hedonics and Preferences

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