

Psychology and Economics: Foundations – Econ 219A
Fall 2009
Wednesday 12-3, 608-7 Evans Hall

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Schedule of classes

The schedule will vary somewhat as the class unfolds. The syllabus will be updated periodically on course webpage.

November 4 – Lecture 1 (1/5 hours)

Reference Dependence, Part 1
Endowment Effect

Methodological Topic: Effect of Experience

Problem Set 2 on Reference Dependence assigned

November 11 – Veteran’s Day – No Lecture

November 18 – Lecture 2

Reference Dependence, Part 2
Insurance Choices
Financial Decisions
Housing Market
Effort on the Job

November 25 –Lecture 3

Reference Dependence, Part 3
Financial Decisions II
Daily Labor Supply
Social Preferences
Field Evidence of Gift Exchange
Workplace Relations

Methodological Topic: Running a Field Experiment

Problem Set 2 on Reference Dependence due

December 2 –Lecture 4

Social Preferences
Workplace Relations
Charitable Giving

Readings

*designates required readings.

The following paper will cover, in a dense manner, the topics covered in the class:

* DellaVigna, Stefano, "Psychology and Economics: Evidence from the Field", *Journal of Economic Literature*, 2009.

The following articles provide partial overviews of the field of Psychology and Economics:

Rabin, Matthew. 1998. "Psychology and Economics." *Journal of Economic Literature*, 36(1): 11-46.

A classic, emphasizes the psychology and its application to economics

Camerer, Colin. 2005. "Behavioral Economics" *World Congress of the Econometric Society*, London, 18-24.

Not comprehensive, but interesting ideas on the field

Mullainathan, Sendhil and Richard H. Thaler. 2001. "Behavioral Economics" in *International Encyclopedia of Social Sciences*, Pergamon Press, 1094-1100.

Classifies most P&E into Bounded Self-Control, Bounded Rationality, and Bounded Self-Interest

For those looking for a background book in social psychology to complement the content of the Psychology and Economics sequence, I highly recommend:

L. Ross and R.E. Nisbett, *The Person and the Situation*, McGraw-Hill, 1991.

A primer into a number of important social psychology findings, still a classic

Daniel Kahneman, Paul Slovic, and Amos Tversky. *Judgment Under Uncertainty: Heuristics and Biases*, Cambridge University Press, 1982.

A classic of the cognitive psychology literature.

November 4 – Lecture 1 (1/5 hours)

Reference Dependence and the Endowment Effect

* Kahneman, Daniel, Jack L. Knetsch, and Richard Thaler. 1990. "Experimental Tests of the Endowment Effect and the Coase Theorem." *Journal of Political Economy*, 98: 1325-48.

* Plott, Charlie R., and Zeiler, Kathryn. 2005 "The Willingness to Pay/Willingness to Accept Gap, the "Endowment Effect," Subject Misconceptions and Experimental Procedures for Eliciting Valuations", *American Economic Review*, 95: 530-545.

Plott, Charlie R., and Zeiler, Kathryn. 2005 "Exchange Asymmetries Incorrectly Interpreted as Evidence of Endowment Effect Theory and Prospect Theory?" Working Paper.

* List, John A. 2003. "Does Market Experience Eliminate Market Anomalies?" *Quarterly Journal of Economics*, 118(1): 41-71.

List, John A. "Neoclassical Theory Versus Prospect Theory: Evidence from the Marketplace," *Econometrica* (2004), 72(2): pp. 615-625.

Haigh, Michael, and John A. List. 2004. "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," *Journal of Finance*, 60(1), 523-534.

Methodology: Effect of Experience

Palacios-Huerta, Ignacio and Oscar Volji. Forthcoming. "Experientia Docet: Professionals Play Minimax in Laboratory Experiments" *Econometrica*

List, John, Steven Levitt, and David Lucking. "What Happens in the Lab Stays in the Lab" Working Paper.

Palacios-Huerta, Ignacio and Oscar Volji. 2007. "Field Centipedes", Working paper.

November 18 – Lecture 2

Reference Dependence and Insurance Choices

Cicchetti, Charles J and Jeffrey A. Dubin. 1994. "A Microeconomic Analysis of Risk Aversion and the Decision to Self-Insure." *The Journal of Political Economy*, 102(1): 169-186.

* Justin Sydnor, "The Deductible-Premium Puzzle: Evidence on Risk Aversion from Deductible Choice in the Homeowners Insurance Market", Berkeley, mimeo, 2009.

Reference Dependence and Housing Markets

* Genesove, David and Christopher Mayer. 2001. "Loss Aversion and Seller Behavior: Evidence from the Housing Market," *Quarterly Journal of Economics*, 116(4), 1233-1260.

Reference Dependence and Pay-Setting

* Mas, Alexander. 2006. "Pay, Reference Points, And Police Performance", *Quarterly Journal of Economics*.

Reference Dependence and Asset Pricing

* Odean, Terry. 1998. "Are Investors Reluctant to Realize Their Losses?", *Journal of Finance*, pp. 1775-1798. (CVF 21)

Ivkovich, Zoran, James Poterba and Scott Weisbenner. 2005 "Tax-Motivated Trading by Individual Investors." *American Economic Review*, 95(5): 1605—1630.

* Barberis, Nicholas and Wei Xiong. Forthcoming. "What Drives the Disposition Effect? An Analysis of a Long-Standing Preference-Based Explanation." *Journal of Finance*.

Karlsson, Niklas, George Loewenstein, and Duane Seppi. 2007. "The 'Ostrich' Effect: Selective Attention to Information about Investments" Working Paper.

Benartzi, Shlomo and Thaler, Richard. 1995. "Myopic loss aversion and the equity premium puzzle", *Quarterly Journal of Economics*, 110, pp.73-92. (CVF 17)

Barberis, Nicholas, Ming Huang and Tano Santos. 2001. "Prospect Theory and Asset Prices", *Quarterly Journal of Economics*, 116(1): 1-53.

Barberis, Nicholas and Huang, Ming. "Mental Accounting, Loss Aversion, and Individual Stock Returns" *Journal of Finance*, 56, 2001, pp.1247-92.

November 25 –Lecture 3

Reference Dependence and Labor supply

* Camerer, Colin, Babcock, Linda, Loewenstein, George, and Thaler, Richard. "Labor supply of New York City Cabdrivers: One day at a time", 1997, *Quarterly Journal Of Economics*, pp. 407-42. (CVF 20)

* Farber, Henry S. 2005. "Is Tomorrow Another Day? The Labor Supply of New York City Cab Drivers", *Journal of Political Economy*.

Farber, Henry S. "Reference-Dependent Preferences and Labor Supply: The Case of New York City Taxi Drivers" *American Economic Review*, forthcoming.

* Fehr, Ernst and Lorenz Goette. 2007. "Do Workers Work More if Wages are High? Evidence from a Randomized Field Experiment." *American Economic Review*, 97(1).

Meng, JuanJuan. 2008. "New York City Cabdrivers' Labor Supply Revisited: Reference-Dependent Utility with Targets for Hours and Income." Working Paper.

Oettinger, Gerald S. 1999. "An Empirical Analysis of the Daily Labor Supply of Stadium Vendors," *Journal of Political Economy*, 107(2): 360-392.

Social Preferences: Gift Exchange in The Field

* Fehr, Kirchsteiger, and Riedl. 1993. "Does Fairness Prevent Market Clearing? An Experimental Investigation" *Quarterly Journal of Economics*, 108, pp. 437-459.

Falk, Armin. "Gift Exchange in the Field", *Econometrica*, forthcoming.

* Gneezy, Uri, and John List. 2006. "Putting Behavioral Economics To Work: Testing For Gift Exchange In Labor Markets Using Field Experiments", *Econometrica*, Vol. 74(5), pp. 1365--1384.

* List, John. 2006. "The Behavioralist Meets the Market: Measuring Social Preferences and Reputation Effects in Actual Transactions", *Journal of Political Economy*, Vol. 114(1): 1-37.

December 2 –Lecture 4

Social Preferences: Evidence in The Workplace

Krueger, Alan and Alexandre Mas. 2004. "Strikes, Scabs and Tire Separations: Labor Strife and the Production of Defective Bridgestone/Firestone Tires," *Journal of Political Economy*, 112(2): 253-89.

* Bandiera, Oriana, Iwan Barankay and Imran Rasul. 2005. "Social Preferences and the Response to Incentives: Evidence from Personnel Data." *Quarterly Journal of Economics*, 120(3): 917--962.

Social Preferences: Charitable Giving

Jim Andreoni, "The Economics of Philanthropy." in N. Smeltser, P. Baltes, eds., *International Encyclopedia of Social and Behavioral Sciences*, Elsevier: Oxford, 2001, 11369-11376.

John A. List and David Lucking-Reiley, "The Effects of Seed Money and Refunds on Charitable Giving: Experimental Evidence from a University Capital Campaign." *Journal of Political Economy*, February 2002, vol. 110, no. 8, pp. 215-233.

* DellaVigna, Stefano, John A. List and Ulrike Malmendier. "Testing for Altruism and Social Pressure in Charitable Giving" 2009. Working paper.

Methodology: How To Run Field Experiments

Harrison, Glenn and John List. "Field Experiments". *Journal of Economic Literature*

* Esther Duflo, Rachel Glennerster, and Michael Kremer "Using Randomization in Development Economics Research: A Toolkit". 2006 Working Paper.