Applications of Psychology and Economics – Econ 219B
Spring 2004
Wednesday 12-3, 639 Evans
Instructor: Stefano DellaVigna, 515 Evans. sdellavi@econ.berkeley.edu.

Homework 4.
Due on February 17 at 12pm

You have a choice of two alternative homework topics for next week. The first one is on experience, the second on self-control in magazine subscriptions.

Homework 6.1. This homework will be a brief (one- to two-pages overall) report on the following papers:

* List, John. "Does Market Experience Eliminate Market Anomalies? ", QJE, forthcoming.

*List, John A. "Neoclassical Theory Versus Prospect Theory: Evidence from the Marketplace," Econometrica (2004), forthcoming.

Haigh, Michael, and John A. List "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," Journal of Finance (2004), forthcoming.

These are some questions you may want to write about:

- What is the sense in which experience eliminates a market anomaly? How does this phenomenon relate to the effect of experience in the Camerer et al. paper?
- A crucial issue is whether individuals really learn to get rid of the endowment effect in general, or they only learn in a specialized way, that is, only with respect to sports cards. For example, do people that attend little health clubs learn about their self-control problems, or just about the fact that they are not good at exercizing. What does the Econometrica paper say about this? Are there ways to test this in field data?
- In the Haig and List paper, investors exhibit *more* myopic loss aversion than students. It appears that in this case experience makes things worse. When could this happen? Are there other explanations?
- Can you think of other papers in economics where experience makes a difference (or does not)?
- What would be a good model of experience? Do people learn? Is there selection? How could you test your theory?

Homework 6.2. This homework will be a brief (one- to two-pages overall) report on the following paper:

*Oster, Sharon and Scott-Morton, Fiona. "Behavioral Issues in Subscription Pricing"

This is the first paper in which we consider the firm response to behavioral biases. In this case, the idea is that self-control problems may lead consumers to overconsume certain magazines (Sports magazines) and underconsume others (The Economist). Individuals may therefore look for commitment devices in the form of lower (or higher) prices for subscriptions.

These are some questions you may want to write about:

- Is the idea reasonable?
- How would competition between different magazines affect the ability of companies to offer discounts for subscriptions? Is there an asymmetry between ‘investment magazines’ and ‘leisure magazines’?
- Do you find the results convincing? Do you have other interpretations for the results?
- How else could one test the authors’ claim?

The readings for next week are

*Fehr, Ernst and Goette, Lorenz. “Intertemporal Substitution at Work? Evidence from a Field Experiment”, 2002.
http://www.unizh.ch/iew/wp/iewwp125.pdf

* List, John. “Does Market Experience Eliminate Market Anomalies? ”, QJE, forthcoming.

*List, John A. "Neoclassical Theory Versus Prospect Theory: Evidence from the Marketplace," Econometrica (2004), forthcoming.

Haigh, Michael, and John A. List "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," Journal of Finance (2004), forthcoming.

Remember, the homework is due on Tuesday by noon. See you next week!