

Applications of Psychology and Economics – Econ 219B
Spring 2004
Wednesday 12-3, 639 Evans Hall

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Office Hours: Tu 5-6

Syllabus

Features of this course

This course is the continuation of the 219A class in *Psychology and Economics – Theory*, taught by Botond Koszegi. As in 219A, we will keep emphasizing the psychological evidence as the basis for sound economic analysis. This should surprise nobody, given the name by which the course (and the field) goes. We will also insist on the importance of neoclassical theory as a very successful benchmark that you are required to know. Finally, several topics of this course are designed to be the empirical counterpart of the theory covered in 219A. This is in particular true for the sections on Self Control, Reference Dependent Preferences, and Social Preferences.

There are two main differences between 219A and 219B. First, this class has largely an empirical orientation, as opposed to the theoretical orientation of 219B. The emphasis on data just reflects the empirical status of economics. In particular, the success of the Psychology and Economics approach will depend on the empirical explanatory power of its theories. Can this approach explain evidence that the neoclassical model struggles with? Can it do so using parsimonious models? In 219B I will present empirical papers drawn from a variety of fields to try to address these questions. We will touch on consumption, public economics, labor economics, industrial organization, political economy, asset pricing, and corporate finance.

The second main feature of the course will be its emphasis on dissertation writing. This will be apparent in the exposition of the topics. More often than not, we will note that the available empirical evidence barely scratches the surface. While this is a drawback for the field, it is a great opportunity for students planning to work in the area. In very few other fields there are so many important questions that still go unanswered. Throughout the course I will do my best to point out what seem to me like good directions for empirical research. In addition, as an incentive to get you started, one of the requirements of the course is a paper on an applied topic. More on this below.

Rules of the game

As a general rule, you should have taken the 219A course before you take this course. If you have not, but are interested in taking this course, please come and talk to me. The prerequisites of the 219A course, that is, an understanding of the economics of uncertainty, contract theory, and game theory at the level of 201B, apply to this course as well. In addition, it is important that you have had exposure to econometrics and empirical research. You should be familiar with OLS estimation, panel data models, and discrete choice models. For example, you should have no uncertainty as to what fixed effects do in a regression. Although it is not a requirement for this course, I recommend taking at least one labor economics course to anyone contemplating doing empirical research.

Throughout the course, I will assign a few required readings each week. The required readings are starred in the reading list below. The non-starred readings are optional, but I suggest that you at least read the abstract. So much of a paper is in the abstract (if the abstract is well-written).

There are four requirements for the course: weekly assignments, an empirical problem set, a presentation, and a paper. The assignments are as follows. Every week I will assign a conference-style discussion of one of the required readings. The discussion is only due on eight of the thirteen weeks of the course, at your choice. In the discussion you should focus your attention on the content, the empirical strategy, or possible extensions of the paper. You do not need to summarize the paper. Given the high frequency of the assignment, the format requirements will be minimal. The discussion should be one- to two-pages long, and can be in a bullet format. The discussion is due to me by noon on Tuesday before lecture. This allows me to read them before class and try to integrate your comments in the lecture. You can either slide the discussion under my door or email it to me.

The other assignment is a one-time empirical problem set. This year, the problem set will focus on earning announcements and the response of stock prices to the new information contained in the announcements. We may also have, in alternative, another empirical problem set on the effect of the media. You can work on the assignment in groups of up to three people, but each one should hand in a solution. I will distribute the problem set at the beginning of March. The data will be in Stata format. I will assume that you have a working knowledge of Stata.

The second requirement is a 25-minute class presentation of the weekly reading. The presentation should have three parts: a. summary of the content of the paper; b. criticism of the paper; c. suggestions for new research. I will elicit your preferences on the topic for the presentation. These short presentations are a good practice for many to come in your academic career.

The third requirement for the course is an empirical paper. As a student, I hated courses that required a paper, but was very happy ex post that I had been forced to write one. As an attempt to make this commitment device more palatable, here are two technological innovations:

- The paper can be written in groups of up to 3 students.
- I encourage you to come up with your own topic for the paper. However, if you prefer more guidance, I have a few suggested paper topics that I can assign.

As for the timing, each person/group should come to see me by February 18. You should feel free to either come during office hours or to schedule an appointment via email. A two-page written proposal is due by March 17. The final 10-15 page paper is due on May 22. The ideal paper contains a novel idea, the empirical strategy, and preliminary empirical results. However, I will accept significantly less as long as you show significant effort.

A natural presentation outlet for these papers is the Psychology and Economics Lunch. You are strongly encouraged to attend this lunch if you are interested in making Psychology and Economics one of your fields. In addition, you should attend the Psychology and Economics Seminar (Tu 2-4) as much as you can. Spots to go for lunch with the speaker are available for sign-up.

The good news is, there is no exam for this course!

The course webpage is an important instrument for this course (http://emlab.berkeley.edu/users/webfac/dellavigna/e219b_sp04/e219b.shtml is the address of last year's). On the website you will find updated lists of readings, the assignments, and the revised lecture notes in pdf format.

After class, I invite you to join me for a coffee at 3pm to chat about Berkeley, Psychology and Economics, Bush policies, Chicago economics, or any other favorite topic of yours.

Grading

The written discussions will be graded on a scale from 0 to 5 (excellent). The final grade will be an average of your best 5 discussions. You therefore have a bonus of three discussions which will not be counted. The class presentation and the paper are also graded on a scale from 0 to 5.

The final grade will be an average with weight 25% on the written discussions, 20% on the problem set, 15% on the class presentation, and 40% on the paper.

Tentative schedule of classes

The schedule will vary somewhat as the class unfolds. The syllabus will be updated on the web and will be available on the course webpage at http://emlab.berkeley.edu/users/webfac/dellavigna/e219b_sp04/e219b.shtml. (the course webpage)

January 19 – Lecture 1

- Introduction
- Good and Bad Psychology and Economics
- Present-Biased Preferences, Part 1

January 28 – No Lecture

February 2 – Lecture 2

- Present-Biased Preferences, Part 2

February 9 – Lecture 3

- Present-Biased Preferences, Part 3

February 16 – Lecture 4

- Present-Biased Preferences, Part 4
- Reference Dependence, Part 1

February 23 – No lecture

March 2 – Lecture cancelled for illness

March 9 – Lecture 5

- Reference Dependence, Part 2
- Effect of Experience

March 16 – Lecture 6

- Reference Dependence, Part 3
- Risk Aversion

March 23 – Spring Break – No Lecture

March 30 – Lecture 7

Framing and Narrow Framing

April 6 – Lecture 8

Introduction to Behavioral and Empirical Corporate Finance
Introduction to Behavioral and Empirical Accounting
Financial Data Sets
Empirical Problem Set Handed Out (Earnings Announcement)

April 13 – Lecture 9

Introduction to Behavioral Asset Pricing
Noise Traders
Event Studies

April 18 – Lecture 10 (Notice: **Monday, 12-2, Evans 4**)

Market Reaction to Biases, Part 1

April 20 – Lecture 11

Market Reaction to Biases, Part 2

April 25 – Lecture 12 (Notice: **Monday, 12-2, Evans 4**)

Economics of Media and attention

April 27 – Lecture 13

Attention II
Social Preferences
Persuasion and Social Learning
Empirical Problem Set Collected (Earnings Announcement)

May 4 – Lecture 14

Overconfidence
Choosing Topics for Dissertation
Conclusion

Readings

*designates required readings.

Some of the readings will be taken from the textbook used in the previous semester of 203, that is, from *Choice, Values and Frames*:

*Kahneman and Tversky *Choices, values and frames*, (henceforth CVF).

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

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

Introduction

*Huberman, Gur, and Regev, Tomer. "Contagious Speculation and a Cure for Cancer: A Nonevent that Made Stock Prices Soar", *Journal of Finance*, February 2001.

*Michael Rashes. "Massively Confused Investors Making Conspicuously Ignorant Choices (MCI-MCIC)", *Journal of Finance*, October 2001.

1. Present-Biased Preferences

Theory overview

*Ted O'Donoghue and Matthew Rabin. "Choice and Procrastination," *Quarterly Journal of Economics*, 2002.

Ted O'Donoghue and Matthew Rabin. "Procrastination in Preparing for Retirement", in *Behavioral Dimensions of Retirement Economics*, Henry Aaron, editor, The Brookings Institution, 1999.

<http://elsa.berkeley.edu/~rabin/retire.pdf>

Status-Quo Bias in Financial Decisions

Samuelson, William and Zeckhauser, Richard, "Status-Quo Bias". *Journal of Risk and Uncertainty*, 1988.

*Madrian, Brigitte and Shea, Dennis. "The power of suggestion: Inertia in 401(k) Participation and Savings Behavior", *Quarterly Journal of Economics*, 2001.

<http://mitpress.mit.edu/catalog/item/default.asp?ttype=6&tid=7463>

*James Choi, David Laibson, Brigitte Madrian, and Andrew Metrick "Optimal Defaults and Active Decisions"

http://post.economics.harvard.edu/faculty/laibson/papers/AD_Dec1.pdf

Consumer Behavior

*DellaVigna, Stefano and Malmendier, Ulrike. "Overestimating Self-control: Evidence from the Health Club Industry", November 2003.

http://emlab.berkeley.edu/users/sdellavi/wp/self_control_nov03.pdf

Wertenbroch, Klaus, "Consumption Self-Control by Rationing Purchase Quantities of Virtue and Vice," *Marketing Science*, 17 (4), 317-337

*Ausubel, Lawrence. "Adverse Selection in the Credit Card Market", Working Paper, University of Maryland, June 1999.

<http://www.ausubel.com/creditcard-papers/adverse.pdf>

Shui, Haiyan, and Ausubel, Lawrence. "Time Inconsistency in the Credit Card Market", mimeo.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=586622

*Ariely, Dan and Wertenbroch, Klaus (2002), "Procrastination, Deadlines, and Performance: Self-Control by Precommitment," *Psychological Science*, 13 (May), 219-224

<http://web.mit.edu/ariely/www/papers/deadlines.pdf>

Miravete, Eugenio "Choosing the Wrong Calling Plan? Ignorance and Learning" *American Economic Review*, 93, pp. 297-310, 2002.

http://www.ssc.upenn.edu/~miravete/Papers/miravete_aer_2002.pdf

Miravete, Eugenio and Palacios-Huerta, Ignacio "Learning Time Preferences"

<http://www.econ.upenn.edu/~miravete/Papers/EJM-IPH.pdf>

Edward L. Glaeser, David M. Cutler and Jesse M. Shapiro "Why Have Americans Become More Obese?", *Journal of Economic Perspectives*, Summer 2003.

<http://post.economics.harvard.edu/hier/2003papers/HIER1994.pdf>

Payday effect

*Shapiro, Jesse. "Is there a daily discount rate? Evidence from the food stamp nutrition cycle" *Journal of Public Economics*, forthcoming.

<http://www.people.fas.harvard.edu/~jmshapir/highfreq111703.pdf>

Barenstein and Huffman "Beer, Steak and Whisky: Evidence of a Payday Spending-Spree"

Melvin Stephens Jr. "Paycheck receipt and the timing of consumption." National Bureau of Economic Research Working Paper, 9356, November 2002.

Melvin Stephens Jr. "'3rd of the month': Do social security recipients smooth consumption between checks?" *American Economic Review*, 93(1):406—422, March 2003.

Labor Economics

DellaVigna, Stefano and Paserman, Daniele. "Job Search and Impatience", *Journal of Labor Economics*, forthcoming.

http://emlab.berkeley.edu/users/sdellavi/wp/impatience_dec03.pdf

Paserman, Daniele. "Job Search and Hyperbolic Discounting: Structural Estimation and Policy Implications." Manuscript, Hebrew University of Jerusalem, September 2003.

Public Economics

Hanming, Fang and Silverman, Dan. "On the Compassion of Time-limited Welfare Programs" July 2002, *Journal of Public Economics*.

<http://www.econ.lsa.umich.edu/~dansilv/compassion.pdf>

Hanming, Fang and Silverman, Dan. "Time-Inconsistency and Welfare Program Participation: Evidence From the NLSY".

<http://www.econ.lsa.umich.edu/~dansilv/tiwelf11.pdf>

Becker, Gary S., and Kevin Murphy (1988). "A Theory of Rational Addiction," *Journal of Political Economy*, 96, 675-700.

Gruber, Jonathan and Koszegi, Botond. "Is Addiction 'Rational?' Theory and Evidence" *Quarterly Journal of Economics*, 2001, 116(4), pp. 1261-1305

<http://emlab.berkeley.edu/users/botond/addiction.pdf>

Gruber, Jonathan and Mullainathan, Sendhil. "Do Cigarette Taxes Make Smokers Happier" March 2002.

<http://econ-www.mit.edu/faculty/gruberj/files/happy81.pdf>

Life-Cycle Consumption

Laibson, D. "Golden eggs and hyperbolic discounting", *Quarterly Journal Of Economics*, v112 n2, May 1997, p.443-77.

*Angeletos, M., Laibson, D., Repetto, A., Tobacman, J. and Weinberg, S. "The Hyperbolic Buffer Stock Model: Calibration, Simulation, and Empirical Evaluation (2000)", *Journal of Economics Perspectives*.

<http://econ-www.mit.edu/faculty/angelet/papers.htm>

David Laibson, Andrea Repetto and Jeremy Tobacman, Estimating Discount Functions from Lifecycle Consumption Choices January 26, 2004.

<http://post.economics.harvard.edu/faculty/laibson/papers/msmpaper021004.pdf>

Karlan et al.

Corporate Finance

Baker, Malcolm, Joshua Coval, and Jeremy Stein. "[Corporate Financing Decision When Investors Take the Path of Least Resistance.](#)" NBER Working Paper Series, No. w10998, 2004.

Neural Evidence

*Samuel M. McClure, David Laibson, George Loewenstein and Jonathan D. Cohen) Separate Neural Systems Value Immediate and Delayed Monetary Rewards. *Science* 306, October 15 2004

Mixed Readings

Mischel, W., Y. Shoda, and M.L. Rodriguez (1992). "Delay of gratification in children" in "Choice over Time", Elster and Loewenstein ed., Russell Sage Foundation.

2. Reference Dependence

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*, p.407-42.

CVF 20.

Oettinger, G. 1999 "An empirical analysis of the daily labor supply of stadium vendors", *Journal of Political Economy*, p.360-92.

Farber, Hank. "[Is Tomorrow Another Day? The Labor Supply of New York City Cab Drivers](#)", *Journal of Political Economy*, 2004.

*Farber, Henry S. "Reference-Dependent Preferences and Labor Supply: The Case of New York City Taxi Drivers" December 2004.

<http://www.irs.princeton.edu/pubs/pdfs/497.pdf>

*Fehr, Ernst and Goette, Lorenz. "Intertemporal Substitution at Work? Evidence from a Field Experiment", 2002.

<http://www.unizh.ch/iew/wp/iewwp125.pdf>

Goette, Lorenz and Huffman, David "Reference-Dependent Preferences and the Allocation of Effort Over Time", 2004.

Market experience

*List, John A. "The Nature and Extent of Discrimination in the Marketplace: Evidence from the Field," *Quarterly Journal of Economics* (2004), 119(1): pp. 49-89.

*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 "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," *Journal of Finance* (2004), forthcoming.

Markets

*Genesove, David and Chris Mayer, "Loss Aversion and Seller Behavior: Evidence from the Housing Market", *Quarterly Journal of Economics*, 2001, Vol. 116, No. 4, 1233-1260.

<http://finance.wharton.upenn.edu/~mayerc>

Camerer, Colin. "Prospect theory in the wild: Evidence from the field"
CVF 16

Asset Pricing

Odean, Terry. "Are Investors Reluctant to Realize Their Losses?", *Journal of Finance*, 1998, p.1775-1798. See other papers at <http://faculty.haas.berkeley.edu/odean/>
CVF 21

Heath, C., Huddart, S., and Lang, M., "Psychological factors and stock option exercises", *Quarterly Journal of Economics*, 1999.

Zoran Ivkovic, James Poterba and Scott Weisbenner, Tax-Motivated Trading by Individual Investors, *American Economic Review*, forthcoming.

Benartzi, S. and Thaler, R. "Myopic loss aversion and the equity premium puzzle", *Quarterly Journal of Economics*, 110, February 1995, pp.73-92.
CVF 17.

Barberis, Huang, and Santos, "Prospect Theory and Asset Prices," *Quarterly Journal of Economics*, 116, 2001, pp.1-53.

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

Time preferences

Loewenstein, G. and N. Sicherman (1991). "Do Workers Prefer Increasing Wage Profiles?" *Journal of Labor Economics* 9(1): 67-84.

Neural evidence

Knutson, B. & Peterson, R. (In Press). Neurally reconstructing expected utility. *Games and Economic Behavior*.

3. Framing and Narrow Framing

Risk Aversion

*Justin Sydnor, "The Deductible-Premium Puzzle: Evidence on Risk Aversion from Deductible Choice in the Homeowners Insurance Market", Berkeley, mimeo, 2005.

Barsky, Robert B., F. T. Juster and M. Kimball, "Preference Parameters and Behavioral Heterogeneity: An Experimental Approach in the Health and Retirement Study," *Quarterly Journal of Economics*, 112(2), May 1997, 537-579.

Constructed Preferences

*Ariely, Dan, Loewenstein, George, & Prelec, Drazen. Coherent arbitrariness: Stable demand curves without stable preferences. *Quarterly Journal of Economics* 118 (1) February 2003

<http://web.mit.edu/ariely/www/papers/CA.pdf>

Loewenstein, George and Simonsohn, Uri. "Mistake #37: The Effect of Previously Faced Prices on Current Housing Demand".

<http://www.mit.edu/~uws/housing121802.pdf>

Simonson, Itamar and Tversky, Amos. [Choice in Context: Tradeoff Contrast and Extremeness Aversion](#), *Journal of Marketing Research*, Vol. XXIX, 1992

Framing / Anchoring

*Hossain, Tanjim and Morgan, John, ["A Test of the Revenue Equivalence Theorem using Field Experiments on eBay"](#), 2003.

Kahneman, D. Ilana Ritov and Savid Schkade, "Economic preferences or attitude expressions? An analysis of dollar responses to public issues"
CVF 36.

Bargaining

Babcock, L., Wang, X., & Loewenstein, G. (1996). Choosing the wrong pond: Social comparisons that reflect a self-serving bias. *Quarterly Journal of Economics*, 111, 1-19.

Babcock, L., and Loewenstein, G. (1997). Explaining bargaining impasse: the role of self-serving biases. *Journal of Economic Perspectives*. 11, 109-126.

<http://sds.hss.cmu.edu/faculty/Loewenstein/downloads/bargainingImpasse.pdf>

Flypaper effect

Singhal, Monica. [Special Interest Groups and the Allocation of Public Funds](#), mimeo.

4. Behavioral Finance

Baker, Malcolm, Ruback, Richard, and Wurgler, Jeff. "Behavioral Corporate Finance: A Survey", mimeo, 2004.

Empirical and Behavioral Corporate Finance I: CEOs

Jensen and Murphy (1990): "Are CEOs paid like Bureaucrats?"

*Bertrand, Marianne and Mullainathan, Sendhil, "Enjoying the Quiet Life? Corporate Governance and Managerial Preferences, *Journal of Political Economy*, 111(5), October 2003: 1043-1075.

Bertrand, Marianne and Mullainathan, Sendhil, "Are CEOs Rewarded for Luck? The Ones Without Principals Are," with Marianne Bertrand, forthcoming, *The Quarterly Journal of Economics*, 116(3), August 2001: 901-32.

Bertrand, Marianne and Schoar, Antoinette, "Managing with Style: The Effect of Managers on Corporate Policy", November 2003, *Quarterly Journal of Economics*.

See also:

Benjamin F. Jones and Olken, Benjamin. "Do Leaders Matter? National Leadership and Growth since World War II" *Quarterly Journal of Economics*. forthcoming,

Hanushek, Eric A., Steven G. Rivkin and John F. Kain, "Teachers, Schools, and Academic Achievement", *Econometrica* 73(2), March 2005, pp. 417-458.

Empirical and Behavioral Corporate Finance II: Boards

Paul A. Gompers and Joy L. Ishii, Andrew Metrick, "Corporate Governance and Equity Prices" *Quarterly Journal of Economics* 118(1), February, 107-155.

Empirical and Behavioral Corporate Finance III: Investment and Mergers

Andrade-Mitchell-Stafford, JEP, 2001

Empirical and Behavioral Corporate Finance IV: Financing and Dividends

Chetty, Raj, and Emmanuel Saez "Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut", NBER wp 10841, 2004

Behavioral Asset Pricing

*Barberis, Nick and Thaler, Richard. "A Survey of Behavioral Finance", 2004.

*DeLong, B. Shleifer, A., Summers, L., and Waldman, R., "Noise trader risk in financial markets", JPE, v98 n4, Aug 1990, p.703-38. Reprinted in Richard H. Thaler, ed., *Advances in Behavioral Finance*, Russell Sage Foundation, 1993.

Shleifer, Andrei, Summers, Lawrence. "The Noise Trader Approach to Finance". *Journal of Economic Perspectives*, Spring, 1990.

Shleifer, Andrei. *Clarendon Lectures: Inefficient Markets*, [Oxford University Press](#), 2000.

Event Studies

*MacKinley AC. 1997. Event studies in economics and finance. *Journal of Economic Literature*, 35(1): 13-39.

Binder, John J. "The Event Study Methodology since 1969", *Review of Quantitative Finance and Accounting*, 1998.

*Wolfers, Justin and Zitzwitz, Eric. "Using Markets to Evaluate Policy: The Case of the Iraq War", mimeo, 2004.

Chan, Louis, Narasimhan Jegadeesh, Josef Lakonishok, "Momentum Strategies", *The Journal of Finance*, Vol. 51, No. 5, Dec. 1996, 1681-1713.

*DellaVigna, Stefano and Joshua Pollet "Strategic Release of Information on Fridays: Evidence from Earnings Announcements", mimeo, UC Berkeley, 2004.

5. Market Reaction to Individual Biases

Do biases matter?

Becker, 1962

Akerlof, G. A. and J. L. Yellen (1985). "Can Small Deviations from Rationality Make Significant Differences to Economic Equilibria?" *American Economic Review* 75(4): 708-720.

Experienced and Inexperienced Agents

Shleifer, Andrei. *Clarendon Lectures: Inefficient Markets*, [Oxford University Press](#), 2000.

Pricing

*DellaVigna, Stefano and Malmendier, Ulrike. "Contract Design and Self-control: Theory and Evidence", *Quarterly Journal of Economics*, May 2004.

http://emlab.berkeley.edu/users/sdellavi/wp/self_control_dec03.pdf

Eliasz, Kfir and Spiegel, Ran. "Contracting with Diversely Naive Agents," mimeo, 2004.

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

Gabaix, Xavier and David Laibson. "Competition and Consumer Confusion", March 2004.

<http://econ-www.mit.edu/faculty/xgabaix/papers.htm>

*Gabaix, Xavier and David Laibson. "Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets", April 2005.

Heidhues, Paul and Koszegi, Botond. "The Impact of Consumer Loss Aversion on Pricing", mimeo, UC Berkeley, 2004.

Corporate Decisions

*Baker, Malcolm, Ruback, Richard, and Wurgler, Jeff. "Behavioral Corporate Finance: A Survey", mimeo, 2004.

Lee, Inmoo, 1997, "[Do Firms knowingly sell overvalued equity?](#)" *Journal of Finance* 52, 1439-1466.

Loughran, Tim, and Jay Ritter, 1995, "[The New Issues Puzzle](#)", *Journal of Finance* 50, 23-51.

*Baker, Malcolm, and Jeffrey Wurgler (2000), "[The Equity Share in New Issues and Aggregate Stock Returns.](#)" *Journal of Finance* 55, 2219-2257

Baker, Malcolm, and Jeffrey Wurgler (2000), "[Market Timing and Capital Structure.](#)" *Journal of Finance* 57, 1-32 [available on Wurgler's web site at NYU]

*Degeorge, Francois, Patel, Jay, and Zeckhauser, Richard. "Earnings Management to Exceed Thresholds," *Journal of Business*, 1999.
<http://ksghome.harvard.edu/~RZeckhauser.Academic.ksg/em8.pdf>

DellaVigna, Stefano and Joshua Pollet "Strategic Release of Information on Fridays: Evidence from Earnings Announcements", mimeo, UC Berkeley, 2004.

Employers

Card, David, and Hyslop, D. "Does inflation grease the wheels of the labor market?" in C. D. Romer and D. H. Romer (eds.), *Reducing Inflation: Motivation and Strategy*. NBER, Studies in Business Cycles, 30. Chicago: University of Chicago Press.

Betting

Steven D. Levitt [How Do Markets Function? An Empirical Analysis of Gambling on the National Football League](#), NBER w9422, Jan 2003.

Politicians

Glaeser, Ed. "The Political Economy of Hatred", August 2002
<http://post.economics.harvard.edu/hier/2002papers/HIER1970.pdf>

Welfare Maximization

*Thaler and Bernatzi "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving", *JPE*, forthcoming.
<http://gsbwww.uchicago.edu/fac/richard.thaler/research/SMarT14.pdf>

6. Attention and the Media

Theory and Experiments

Mullainathan, Sendhil. "Thinking Through Categories", April 2002.
<http://www.haas.berkeley.edu/finance/cat3.pdf>

Gabaix, Xavier and David Laibson "Bounded rationality and directed cognition", Mimeo.
<http://web.mit.edu/xgabaix/www/papers.html>

Gabaix, Xavier, David Laibson, Guillermo Moloche and Stephen Weinberg "The allocation of attention: Theory and evidence", Mimeo. <http://web.mit.edu/xgabaix/www/papers.html>

Rubinstein, A. *Modeling bounded rationality*, MIT Press, 1998.

Financial Markets

*Barber, Brad and Odean, Terry. "All that Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors", April 2002.

<http://faculty.haas.berkeley.edu/odean/papers/Attention/All%20that%20Glitters.pdf>

*Hong, Harrison, Torous, Walter, and Ross Valkanov. "[Do Industries Lead the Stock Market? Gradual Diffusion of Information and Cross-Asset Return Predictability,](#)" November 2002

Pollet, "Predicting Asset Returns with Expected Oil Price Changes", November 2003.

DellaVigna, Stefano and Pollet, Josh. "Attention, Demographic Changes and the Stock Market" <http://emlab.berkeley.edu/users/sdellavi/wp/attention.pdf>

Barberis, Nick and Shleifer, Andrei. "Style Investing", forthcoming, *Journal of Financial Economics*, 2002.

*Huberman, Gur, and Regev, Tomer. "Contagious Speculation and a Cure for Cancer: A Nonevent that Made Stock Prices Soar", *Journal of Finance*, February 2001.

*Michael Rashes. "Massively Confused Investors Making Conspicuously Ignorant Choices (MCI-MCIC)", *Journal of Finance*, October 2001.

Rewarding for Luck

Bertrand, Marianne and Mullainathan, Sendhil. "Are CEOs Rewarded for Luck? The Ones Without Principals Are," *Quarterly Journal of Economics*, Vol. 116, Issue 3, August 2001.

Justin Wolfers, [Are Voters Rational? Evidence from Gubernatorial Elections](#), Stanford GSB.

Labor Supply

Zarkin, Gary. "Occupational Choice: An Application to the Market for Public School Teachers", *Quarterly Journal of Economics*, 100(2), 1985.

Media Coverage and Government Behavior

*David Stromberg, "Radio's Impact on Public Spending," *Quarterly Journal of Economics*, 119, February 2004.

*Timothy Besley And Robin Burgess, "The Political Economy Of Government Responsiveness: Theory And Evidence From India", *Quarterly Journal of Economics*, 117, November 2002.

Media Bias

Andrei Shleifer and Sendhil Mullainathan "The Market for News", mimeo, 2002.

*Timothy Groseclose: "[A Measure of Media Bias](#)", mimeo, 2002.

Media Coverage and Reader Behavior

*Lisa George and Joel Waldfogel “[Does the New York Times Spread Ignorance and Apathy?](#)”, mimeo, 2002.

Matt Gentzkow

*Alexander Dyck and Luigi Zingales “[The Media and Asset Prices](#)”, mimeo, 2002.

7. Persuasion and Social Learning

Model

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CVF 23

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