

Applications of Psychology and Economics – Econ 219B
Spring 2005
Wednesday 12-3, 639 Evans
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Homework 3.
Due on Tu February 15 at 12pm

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

* 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>

Useful background on the following two papers:

*Camerer, Colin, Babcock, Linda, Loewenstein, George, and Thaler, Richard. "Labor supply of New York City Cabdrivers: One day at a time", 1997, QJE, p.407-42. CVF 20.

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

Here are some questions you may want to write about. (you should not attempt to write about all of them, pick what interests you the most)

- Comment on the model of Farber's paper. What behavioral assumptions is he making? Praise or criticize. How is this related to the model of Koszegi and Rabin on prospect theory with endogenous reference points?
- Comment on the estimation procedure. How can he separately identify all the parameters, in particular the ones on the reference point and on the loss-aversion?
- How do you interpret the results of the paper? Are they consistent with Camerer's results, which are obtained with a different methodology?
- Why do the Camerer et al. and the Farber papers find such different results? Are they really that different? Could Farber's results be due just to weak power of the test?
- The crucial (often unspecified) element of referent-dependent theories is the framing. In the Camerer et al., Fehr and Goette, and Farber papers, the implicit assumption is that it's earnings for the **day** that matter. Why does this make sense? Why does it NOT make sense? (arguing the two-sides is often a good exercise)
- Brainstorm about the framing horizon of different economic decisions (consumption, addiction, education, job choice, charitable donations, accounting,...). Does this suggest empirical studies along the lines of the Camerer et al. paper?

The readings for next week are

*Camerer, Colin, Babcock, Linda, Loewenstein, George, and Thaler, Richard. "Labor supply of New York City Cabdrivers: One day at a time", 1997, QJE, p.407-42. CVF 20.

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

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

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>

* List, John. "Does Market Experience Eliminate Market Anomalies? ", *Quarterly Journal of Economics*, forthcoming.

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

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