

**14.160: Behavioral Economics**  
**Fall 2016**  
**Tues/Thurs 4:30 to 6:00 pm**  
**E51-390**

**Instructors:**

Abhijit Banerjee, E52-540  
Email: [banerjee@mit.edu](mailto:banerjee@mit.edu)  
Office hours by appointment

Frank Schilbach, E52-560  
Email: [fschilb@mit.edu](mailto:fschilb@mit.edu)  
Office hours: Sign up at <http://economics.mit.edu/faculty/fschilb/office>

**Teaching Assistant:**

Aicha Ben Dhia  
Email: [abendhia@mit.edu](mailto:abendhia@mit.edu)  
Office hours: Tuesday 6 pm to 7 pm or by appointment  
Recitation: Friday 4 pm to 5 pm, E51-361 (starting Sept 16)

**Course overview**

This class covers recent theory and empirical evidence in behavioral economics. Topics include deviations from the neoclassical model in terms of (i) preferences (present bias, reference dependence, and social preferences), (ii) beliefs (overconfidence, projection bias, and attribution bias), and (iii) decision-making (cognition, attention, framing, and persuasion), as well as (iv) market reactions to such deviations. Applications will cover a wide range of fields, including labor and public economics, industrial organization, health economics, finance, and development economics.

The course is designed for first- and second-year PhD students in economics. It is complementary to 14.137 (Psychology and Economics) taught by Prof. Drazen Prelec in the spring semester. 14.137 focuses on the underlying psychology of many of the topics discussed in 14.160, and it covers recent advances in neuro-economics. PhD students in the economics department may combine 14.137 and 14.160 as a minor.

We are very fortunate to have two of the top young scholars in behavioral economics, [Gautam Rao](#) (Harvard) and [Leo Bursztyn](#) (UChicago), give several guest lectures in our course (see schedule below).

We encourage students to attend Matthew Rabin's excellent (theory-oriented) [PhD course at Harvard](#), which is for the most part complementary to 14.160. Students are strongly encouraged to attend the [Harvard Behavioral and Experimental Economics Workshop](#).

Prerequisites for this class are 14.121 and 14.122, though MIT graduate students should be able to and are in fact encouraged to take this course in their first year. If you have not taken these courses, or are *not* an MIT economics PhD student, please contact the instructors regarding your participation in this course.

### **Course requirements and grading**

Grades will be determined based on (i) a mid-term exam (35%), (ii) six problem sets (20%), (iii) a final exam (35%), and (iv) regular class attendance and participation (10%). Both the mid-term and final exams will be in class. Students are required to read the (typically one to three) starred readings before class, and are strongly encouraged to actively participate in class throughout the course.

### **Collapsed course outline**

<b>Date</b>	<b>Lect. #</b>	<b>Instructor</b>	<b>Topic</b>	<b>Notes</b>
9/8	1	Abhijit/Frank	Intro/Default effects	
9/13	2	Frank	Default effects	
9/15	3	Frank	Time preferences	
9/20	4	Frank	Time preferences	
9/22	5	Frank	Time preferences	Pset 1 due
9/27	6	Frank	Emotions and visceral factors	
9/29	7	Frank	Projection and attribution bias	
10/4	8	Frank	Poverty	Pset 2 due
10/6	9	Abhijit	Social Preferences	
10/11		-	<i>No class (Columbus day)</i>	
10/13	10	Abhijit	Social Preferences	
10/18	11	Gautam	Social Preferences	Pset 3 due
10/20	12	Abhijit	Limited attention/Mistakes	
10/25	13	Abhijit	Limited attention	
10/27		-	<i>Midterm (in class)</i>	
11/1	14	Abhijit	Saliency (Shleifer/Rabin/Koszegi)	
11/3	15	Abhijit	Peer effects and social learning	
11/8	16	Leo	Peer effects and social learning	Pset 4 due
11/10	17	Leo	Peer effects and social learning	
11/15	18	Abhijit	Policy with behavioral agents	
11/17	19	Abhijit	Policy with behavioral agents	Pset 5 due
11/22	20	Abhijit	Risk preferences	
11/24		-	<i>No class (Thanksgiving)</i>	
11/29	21	Frank	Reference-dependent preferences	
12/1	22	Frank	Reference-dependent preferences	Pset 6 due
12/6	23	Leo	Gender and identity	
12/8	24	Frank	Psychology for economists	
12/13		-	<i>Final exam (in class)</i>	

## **COURSE READINGS**

There is no textbook for the course. Starred readings are required, and you are expected to read these papers before class.

### **General readings:**

#### **Overview articles**

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

Rabin, Matthew. 2013. "Incorporating Limited Rationality into Economics." *Journal of Economic Literature* 51(2): 528-543.

Mullainathan, Sendhil and Richard H. Thaler. 2000. "Behavioral Economics." *NBER Working Paper No. 7948*.

#### **Books**

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

Kahneman, Daniel and Amos Tversky (eds.) (2000): *Choices, Values and Frames*, New York: Russell Sage Foundation: Cambridge University Press.

Ross, Lee and Richard E. Nisbett (1991): *The Person and the Situation: Perspectives of Social Psychology*, Philadelphia: Temple University Press.

Cialdini, Robert B. (1993): *Influence, the Psychology of Persuasion*, New York: William Morrow Publishing Co.

Kahneman, Daniel (2011): *Thinking, Fast and Slow*, New York: Farrar, Straus and Giroux.

#### **Lecture 1 (Sept. 8; Abhijit/Frank): Introduction**

\*DellaVigna, Stefano. 2009. "Psychology and Economics: Evidence from the Field." *Journal of Economic Literature* 47(2): 315-372.

\*Rabin, Matthew. 2002. "A Perspective on Psychology and Economics." *UC Berkeley Economics Working Paper No. E02-313*.

#### **Lecture 2 (Sept. 13; Frank): Default effects**

\*Madrian, Brigitte C., and Dennis F. Shea. 2001. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *Quarterly Journal of Economics* 116(4): 1149-1187.

Carroll, Gabriel D., James J. Choi, David Laibson, Brigitte C. Madrian, and Andrew Metrick. 2009. "Optimal Defaults and Active Decisions." *Quarterly Journal of Economics* 124(4): 1639-1674.

Chetty, Raj, John N. Friedman, Soren Leth-Petersen, Torben Heien Nielsen, and Tore Olsen. 2014. "Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts." *Quarterly Journal of Economics* 129(3): 1141-1219.

Thaler, Richard H. and Shlomo Benartzi. 2004. "Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving." *Journal of Political Economy* 112(S1): S164-187.

Brown, Jeffrey and Alessandro Previtro. 2014. "Procrastination, Present-Biased Preferences, and Financial Behaviors." Mimeo.

Handel, Benjamin R. 2013. "Adverse Selection and Inertia in Health Insurance Markets: When Nudging Hurts." *American Economic Review*, 103(7): 2643-2682.

\*Blumenstock, Joshua, Michael Callen, and Tarek Ghani. 2016. "Mobile-zing Savings with Automatic Contributions: Experimental Evidence on Dynamic Inconsistency and the Default Effect in Afghanistan." Mimeo.

### **Lecture 3 (Sept. 15; Frank): Time preferences – overview and theory**

\*Frederick, Shane, George Loewenstein, and Ted O'Donoghue. 2002. "Time Discounting and Time Preference: A Critical Review." *Journal of Economic Literature* 40(2): 351-401.

Akerlof, George A. 1991. "Procrastination and Obedience." *American Economic Review, Papers and Proceedings* 81(2): 1-19.

Laibson, David. 1997. "Golden Eggs and Hyperbolic Discounting." *Quarterly Journal of Economics* 112(2): 443-478.

\*O'Donoghue, Ted and Matthew Rabin. 1999. "Doing It Now or Later." *American Economic Review* 89(1): 103-124.

\*O'Donoghue, Ted and Matthew Rabin. 2001. "Choice and Procrastination." *Quarterly Journal of Economics* 116(1): 121-160.

### **Lecture 4 (Sept. 20; Frank): Time preferences – applications**

Ariely, Dan and Klaus Wertenbroch. 2002. "Procrastination, Deadlines, and Performance: Self-Control by Precommitment." *Psychological Science* 13(3): 219-224.

Ashraf, Nava, Dean Karlan, and Wesley Yin. 2006. "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines." *Quarterly Journal of Economics* 121(2): 635-672.

\*Kaur, Supreet, Michael Kremer, and Sendhil Mullainathan. 2015. "Self-Control at Work." *Journal of Political Economy* (forthcoming).

Andreoni, James and Charles Sprenger. 2012. "Estimating Time Preferences from Convex Budgets." *American Economic Review* 102(7): 3333-3356.

\*Augenblick, Ned, Muriel Niederle, and Charles Sprenger. 2015. "Working over Time: Dynamic Inconsistency in Real Effort Tasks." *Quarterly Journal of Economics*, 130(3): 1067-1115.

DellaVigna, Stefano and Ulrike Malmendier. 2006. "Paying Not To Go To the Gym." *American Economic Review*, 96(3): 694-719.

\*DellaVigna, Stefano and Ulrike Malmendier. 2004. "Contract Design and Self-Control: Theory and Evidence." *Quarterly Journal of Economics* 119(2): 353-402.

Kfir, Eliaz and Ran Spiegler. 2006. "Contracting with Diversely Naïve Agents." *Review of Economic Studies* 73(3): 689-714.

Gruber, Jonathan, and Botond Koszegi. 2001. "Is Addiction 'Rational'? Theory and Evidence." *Quarterly Journal of Economics*, 116(4): 1261-1303.

Milkman, Katherine L., Julia A. Minson, and Kevin G.M. Volpp. 2014. "Holding the Hunger Games Hostage at the Gym: An Evaluation of Temptation Bundling." *Management Science*, 60(2): 283-299.

Carrillo, Juan and Thomas Mariotti. 2000. "Strategic Ignorance as a Self-Disciplining Device." *Review of Economic Studies* 67: 529-544.

### **Lecture 5 (Sept. 22; Frank): Time prefs – open research questions**

\*Augenblick, Ned and Matthew Rabin. 2015. "An Experiment on Time Preference and Misprediction in Unpleasant Tasks." Mimeo.

Meier, Stephan and Charles Sprenger. 2015. "Temporal Stability of Time Preferences." *Review of Economics and Statistics* 97(2): 273-286.

Laibson, David. 2015. "Why Don't Present-Biased Agents Make Commitments?" *American Economic Review* 105(5): 267-272.

Schilbach, Frank. 2015 "Alcohol and Self-Control: A Field Experiment in India." Mimeo.

Samek, Anya, Charles Sprenger, and Sally Sadoff. 2015. "Dynamic Inconsistency in Food Choice: Experimental Evidence from a Food Desert." Mimeo.

Beshears, John, James Choi, Christopher Clayton, Christopher Harris, David Laibson, and Brigitte Madrian. 2015. "Optimal Illiquidity." Mimeo.

Hershfield, Hal. 2011. "Future Self-continuity: How Conceptions of the Future Self Transform Intertemporal Choice." *Annals of the New York Academy of Sciences* 1234: 30-43.

Andreoni, James, Michael Callen, Karrar Jaffar, Yasir Khan, and Charles Sprenger. 2015. "Tailoring Intertemporal Incentives: An Application to Polio Vaccination Drives in Pakistan." Mimeo.

### **Lecture 6 (Sept. 27; Frank): Emotions and visceral factors**

\*Read, Daniel and Barbara van Leeuwen. 1998. "Predicting Hunger: The Effects of Appetite and Delay on Choice." *Organizational Behavior and Human Decision Processes*, 76(2): 189-205.

Badger, Gary, Warren K. Bickel, Louis A. Giordano, Eric A. Jacobs, George F. Loewenstein, and Lisa Marsch. 2007. "Altered States: The Impact of Immediate Craving on the Valuation of Current and Future Opioids." *Journal of Health Economics* 26: 865-876.

Lerner, Jennifer, Ye Li, Piercarlo Valdesolo, and Karim S. Kassam. 2015. "Emotion and Decision Making." *Annual Review of Psychology* 66(33): 1-33.25

Card, David and Gordon B. Dahl. 2011. "Family Violence and Football: The Effect of Unexpected Emotional Cues on Violent Behavior." *Quarterly Journal of Economics* 126(1): 103-143.

### **Lecture 7 (Sept. 29; Frank): Projection and attribution bias**

\*Loewenstein, George, Ted O'Donoghue, and Matthew Rabin. 2003. "Projection Bias in Predicting Future Utility." *Quarterly Journal of Economics* 118(4): 1209-1248.

Conlin, Michael, Ted O'Donoghue, and Timothy J. Vogelsang. 2007. "Projection Bias in Catalog Orders." *American Economic Review* 97(4): 1217-1249.

Busse, Meghan, Devin Pope, Jaren Pope, Jorge Silva-Risso. 2015: "The Psychological Effect of Weather on Car Purchases." *Quarterly Journal of Economics* 130(1): 371-414.

Badger et al. 2007: "Altered States: The Impact of Immediate Cravings on the Valuation of Current and Future Opioids." *Journal of Health Economics* 26: 865-876.

Haggag, Kareem, and Devin Pope. 2016: "Attribution Bias in Economic Decision Making." Mimeo.

## **Lecture 8 (Oct. 4; Frank): Poverty, cognitive function, and decision-making**

Banerjee, Abhijit and Sendhil Mullainathan. 2010. "The Shape of Temptation: Implications for the Economic Lives of the Poor." *NBER Working Paper* No. 15973.

Abhijit Banerjee, Nathanael Goldberg, Dean Karlan, Robert Osei, William Parienté, Jeremy Shapiro, Bram Thuysbaert, and Christopher Udry. 2015. "A Multi-faceted Program Causes Lasting Progress for the Very Poor: Evidence from Six Countries." *Science* 348(6236): 772+.

Becker, Gary and Casey Mulligan. 1997. "The Endogenous Determination of Time Preference." *Quarterly Journal of Economics* 112(3): 729–758.

\*Mani, Anandi, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao. 2013. "Poverty Impedes Cognitive Function." *Science* 341(6149): 976–980.

Shah, Anuj, Sendhil Mullainathan, Eldar Shafir. 2012. "Some Consequences of Having Too Little." *Science* 338(6107): 682-685.

Haushofer, Johannes and Ernst Fehr. 2014. "On the Psychology of Poverty." *Science* 344(6186): 862-867.

Carvalho, Leandro S., Stephan Meier, and Stephanie W. Wang. 2015. "Poverty and Economic Decision-Making: Evidence from Changes in Financial Resources at Payday." *American Economic Review* (forthcoming).

Schilbach, Frank, Sendhil Mullainathan, and Heather Schofield. 2016. "The Psychological Lives of the Poor." *American Economic Review Papers & Proceedings* 106(5): 435-440.

## **Lecture 9 (Oct 6; Abhijit): Social preferences**

\*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.

\*Andersen, Steffen, Seda Ertac, Uri Gneezy, Moshe Hoffman, and John A. List. 2011. "Stakes Matter in Ultimatum Games." *American Economic Review* 101(7): 3427-3439.

\*Benabou, Roland and Jean Tirole. 2006. "Incentives and Prosocial Behavior." *American Economic Review* 96(5): 1652-1678.

Charness, Gary and Matthew Rabin. 2002. "Understanding Social Preferences with Simple Tests." *Quarterly Journal of Economics* 117(3): 817-869.

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

Bellemare, Charles and Bruce S. Shearer. 2007. "Gift Exchange within a Firm: Evidence from a Field Experiment." IZA Discussion Paper 2696.

Falk, Armin, Stephan Meier, and Christian Zehnder. 2013. "Do Lab Experiments Misrepresent Social Preferences? The Case of Self-selected Student Samples." *Journal of the European Economic Association* 11(4): 839-852.

Grossman, Zachary and Joel J. van der Weele. 2013. "Self-image and Strategic Ignorance in Social Decisions." Mimeo.

Bolton, Gary E. and Axel Ockenfels. 2000. "ERC: A Theory of Equity, Reciprocity, and Competition." *American Economic Review* 90(1): 166-193.

Falk, Armin, Ernst Fehr, and Urs Fischbacher. 2008. "Testing Theories of Fairness—Intentions Matter." *Games and Economic Behavior* 62(1): 287-303.

### **October 11: No class (Columbus Day)**

### **Lecture 10 (October 13; Abhijit): Social preferences II**

\*Fehr, Ernst and Klaus Schmidt. 1999. "A Theory of Fairness, Competition, and Cooperation." *Quarterly Journal of Economics* 114(3): 817-868.

\*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.

\*Breza, Emily, Supreet Kaur and Yogita Shamdasani. 2016. "The Morale Effects of Pay Inequality." NBER Working Paper 22491.

\*Card, David, Alexandre Mas, Enrico Moretti, and Emmanuel Saez. 2012. "Inequality at Work: The Effect of Peer Salaries on Job Satisfaction." *American Economic Review* 102(6): 2981-3003.

Benabou, Roland and Jean Tirole. 2011. "Identity, Morals and Taboos: Beliefs as Assets." *Quarterly Journal of Economics* 126: 805-855.

Rema Hanna, Sendhil Mullainathan, Joshua Schwartzstein. 2014. "Learning Through Noticing: Theory and Evidence from a Field Experiment." *Quarterly Journal of Economics* 129(3): 1311-1353.

### **Lecture 11 (October 18; Gautam): Social preferences**

\*Rao, Gautam. 2014. "Familiarity Does Not Breed Contempt: Diversity, Discrimination and Generosity in Delhi Schools." Mimeo.



\*Hjort, Jonas. 2014. Ethnic Divisions and Production in Firms. *The Quarterly Journal of Economics* 129(4): 1899-1946.

Charness, G. and Rabin, M., 2002. Understanding Social Preferences with Simple Tests. *Quarterly journal of Economics* 117(3): 817-869.

Uri Gneezy and Alex Imas. 2016. "Lab in the Field: Measuring Preferences in the Wild." CESifo WP 5953 (Prepared for the forthcoming Handbook of Field Experiments in Economics).

Banerjee, Abhijit. 1990. "Envy." in *Economic Theory and Policy: Essays in Honour of Professor Dipak Banerjee*, Bhaskar, Dutta (ed.), Bombay and New York: Oxford University Press.

Berge, L.I.O., Bjorvatn, K., Galle, S., Miguel, E., Posner, D.N., Tungodden, B. and Zhang, K., 2015. "How Strong are Ethnic Preferences?" National Bureau of Economic Research Working Paper 21715.

Mukherjee, Priya. 2015. "The Effects of Social Identity on Aspirations and Learning Outcomes: A Field Experiment in Rural India." Mimeo.

Hoff, Karla and Priyanka Pandey. 2014. "Making up People—The Effect of Identity on Performance in a Modernizing Society." *Journal of Development Economics* 106: 118-131.

Jensen, Robert and Emily Oster. 2009. "The Power of TV: Cable Television and Women's Status in India." *The Quarterly Journal of Economics* 124(3): 1057-1094.

Lowes, Sara, Nathan Nunn, James A. Robinson and Jonathan Weigel. 2015. "The Interaction of Culture and Institutions: Evidence from the Kuba Kingdom." NBER Working Paper 21798.

## **Lecture 12 (October 20; Abhijit): Decision-making with limited attention**

\*Raj Chetty, Adam Looney, Kory Kroft. 2009. "Salience and Taxation: Theory and Evidence." *American Economic Review* 99(4): 1145-1177.

\*Gabaix, Xavier. 2014. "A Sparsity-Based Model of Bounded Rationality." *Quarterly Journal of Economics* 129(4): 1661-1710.

\*Thaler, Richard H. 1985. "Mental Accounting and Consumer Choice." *Marketing Science* 4: 199-214.

\*Becker, Gary. 1962. "Irrational Behavior and Economic Theory." *Journal of Political Economy* 70(1): 1-13.

Ariely, Dan, George Loewenstein, and Drazen Prelec. 2003. "Coherent Arbitrariness: Stable Demand Curves Without Stable Preferences." *Quarterly Journal of Economics* 118(1): 73-106.

Woodford, Michael. 2012. "Inattentive Valuation and Reference-Dependent Choice." Working Paper, Columbia University.

Sims, Christopher. 2003. "Implications of Rational Inattention," *Journal of Monetary Economics* 50: 665-690.

### **Lecture 13 (October 25; Abhijit): Market reactions to limited attention**

Ellison, Glenn. 2006. "Bounded Rationality in Industrial Organization" in R. Blundell, W. Newey and T. Persson (eds.), *Advances in Economics and Econometrics: Theory and Applications, Ninth World Congress*, Cambridge University Press.

\*Gabaix, Xavier and David Laibson. 2004. "Competition and Consumer Confusion." Working Paper.

\*Gabaix, Xavier and David Laibson. 2006. "Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets." *Quarterly Journal of Economics* 121(2): 505-540.

### **October 27: Mid-term (in class)**

### **Lecture 14 (November 1; Abhijit): Saliency**

\*Bordalo, Pedro, Nicola Gennaioli, and Andrei Shleifer. 2013. "Saliency and Consumer Choice." *Journal of Political Economy* 121(5): 803-843.

Bordalo, Pedro, Nicola Gennaioli, and Andrei Shleifer. 2012. "Saliency Theory of Choice under Risk." *Quarterly Journal of Economics* 127(3): 1243-1285.

Koszegi, Botond and Adam Szeidl. 2013. "A Model of Focusing in Economic Choice." *Quarterly Journal of Economics* 128(1): 53-104.

### **Lecture 15 (November 3; Abhijit): Peer effects and social learning I**

Bernheim, Douglas. 1994. "A Theory of Conformity." *Journal of Political Economy* 102(5): 841-877.

\*Banerjee, Abhijit. 1992. "A Simple Model of Herd Behavior." *Quarterly Journal of Economics* 107(3): 797-817.

\*Banerjee, Abhijit and Drew Fudenberg. 2004. "Word of Mouth Learning." *Games and Economic Behavior* 46(1): 1-22.

\*Eyster, Erik and Matthew Rabin. 2014. "Extensive Imitation is Irrational and Harmful." *Quarterly Journal of Economics*, 129(4): 1861-1898.

Eyster, Erik and Matthew Rabin. 2010. "Naïve Herding in Rich-Information Settings." *American Economic Journal: Microeconomics* 2(4): 221-243.

DeMarzo, Peter, Dimitri Vayanos, and Jeffrey Zwiebel. 2003. "Persuasion Bias, Social Influence, and Unidimensional Opinions." *Quarterly Journal of Economics* 118(3): 909-967.

Golub, Benjamin and Matthew O. Jackson. 2010. "Naive Learning in Social Networks and the Wisdom of Crowds." *American Economic Journal: Microeconomics* 2(1): 112-149.

Banerjee, Abhijit, Emily Breza, Arun Chandrasekhar and Markus Mobius. 2015. "Naïve Learning with Uninformed Agents." Mimeo.

Smith, Lones and Peter Sorensen. 2000. "Pathological Outcomes of Observational Learning." *Econometrica* 68(2): 371-398.

Kahneman, Daniel and Amos Tversky. 1974. "Judgment under Uncertainty: Heuristics and Biases." *Science*, New Series, 185(4157): 1124-1131.

Bernheim, Douglas and Laurie Bagwell. 1996. "Veblen Effects in a Theory of Conspicuous Consumption." *American Economic Review* 86(3): 349-373.

### **Lecture 16 (November 8; Leo): Peer effects and social learning II: Keeping up with the Joneses, conspicuous consumption**

\*Bursztyn, Leonardo, Florian Ederer, Bruno Ferman and Noam Yuchtman. 2014. "Understanding Mechanisms Underlying Peer Effects: Evidence from a Field Experiment on Financial Decisions." *Econometrica* 82(4): 1273-1301.

Heffetz, Ori. 2011. "A Test of Conspicuous Consumption: Visibility and Income Elasticities," *Review of Economics and Statistics* 93(4): 1101-1117.

Charles, Kerwin Kofi, Erik Hurst, and Nikolai Roussanov. 2009. "Conspicuous Consumption and Race," *Quarterly Journal of Economics* 124(2): 425-467.

\*Bursztyn, Leonardo, Stefano Fiorin, Bruno Ferman, Martin Kanz, and Gautam Rao. 2016. "Status Goods: Experimental Evidence from Platinum Credit Cards," working paper.

### **Lecture 17 (November 10; Leo): Peer effects and social learning III: Social Image**

\*Bursztyn, Leonardo, and Robert Jensen. 2016. "Social Image and Economic Behavior in the Field: Identifying, Understanding and Shaping Social Pressure." Prepared for the Annual Review of Economics.

Austen-Smith, David and Roland G Fryer. 2005. "An Economic Analysis of 'Acting White'." *Quarterly Journal of Economics* 120(2): 551–583.

Fryer, Roland G. and Paul Torelli. 2010. "An Empirical Analysis of 'Acting White'." *Journal of Public Economics*. 94(5): 380–396.

\*Bursztyn, Leonardo, and Robert Jensen. 2015. "How Does Peer Pressure Affect Educational Investments?" *Quarterly Journal of Economics* 130(3): 1329-1367.

\*Bursztyn, Leonardo, Georgy Egorov, and Robert Jensen. 2016. "Cool to be Smart or Smart to be Cool? Understanding Peer Pressure in Education," working paper.

### **Lecture 18 and 19 (November 15 and 17; Abhijit): Policy with behavioral agents**

\*Faruk Gul and Wolfgang Pesendorfer. 2008. "The Case for Mindless Economics," in A. Caplin and A. Shoter (eds.), *Foundations of Positive and Normative Economics*, Oxford University Press.

\*Koszegi, Botond and Matthew Rabin. 2008. "Choices, Situations and Happiness." *Journal of Public Economics* 92: 1821-1832.

\*Toussaert, Severine. 2016. "Eliciting Temptation and Self-control through Menu Choices: a Lab Experiment." Mimeo, NYU.

\*Bartling, Bjorn, Ernst Fehr and Holger Herz. 2014. "The Intrinsic Value of Decision Rights." *Econometrica* 82(6): 2005-2039.

\*Bernheim, B. Douglas, and Antonio Rangel. 2009. "Beyond Revealed Preference: Choice-Theoretic Foundations for Behavioral Welfare Economics." *Quarterly Journal of Economics* 124(1): 51-104.

\*Carroll, Gabriel D., James J. Choi, David Laibson, Brigitte C. Madrian, and Andrew Metrick. 2009. "Optimal Defaults and Active Decisions." *Quarterly Journal of Economics* 124(4): 1639-1674.

\*Amador, Manuel, Ivan Werning, and George-Marios Angeletos. 2006. "Commitment vs. Flexibility." *Econometrica* 74(2): 365-396.

\*Alcott, Hunt, and Dmitry Taubinsky. 2015. "Evaluating Behaviorally-Motivated Policy: Experimental Evidence from the Lightbulb Market." *American Economic Review* 105(8): 2501-2538.

Bernheim, Doug, Andrey Fradkin and Igor Popov. 2015. "The Welfare Economics of Default Options in 401(k) Plans." *American Economic Review* 105(9): 2798-2837.

Fehr, Ernst, Holger Herz and Tom Wilkening. 2013. "The Lure of Authority: The Motivation and Incentive Effects of Power." *American Economic Review* 103(4): 1325-1359.

## **Lecture 20 (November 22; Abhijit): Risk preferences**

\*Tversky, Amos and Daniel Kahneman. 1979. "Prospect Theory: An Analysis of Decision under Risk." *Econometrica* 47(2): 263-292.

\*Rabin, Matthew. 2000. "Risk Aversion and Expected-Utility Theory: A Calibration Theorem." *Econometrica* 68(5): 1281-1292.

Sydnor, Justin. 2010. "(Over)insuring Modest Risks." *American Economic Journal: Applied Economics* 2(4): 177-199.

Prelec, Drazen. 1998. "The Probability Weighting Function." *Econometrica* 66(3): 497-527.

## **Lecture 21 (November 29; Frank): Reference-dependent utility – theory**

\*Koszegi, Botond and Matthew Rabin. 2006. "A Model of Reference-Dependent Preferences." *Quarterly Journal of Economics* 121(4): 1133-1166.

\*Koszegi, Botond and Matthew Rabin. 2007. "Reference-Dependent Risk Preferences." *American Economic Review* 97(4): 1047-1073.

Marzilli Ericson, Keith M. and Andreas Fuster. 2011. "Expectations as Endowments: Evidence on Reference-Dependent Preferences from Exchange and Valuation Experiments." *Quarterly Journal of Economics* 126(4): 1879-1907.

Sprenger, Charles. 2015. "An Endowment Effect for Risk: Experimental Tests of Stochastic Reference Points." *Journal of Political Economy* 123(6): 1456-1499..

Götte, Lorenz, Annette Harms, and Charles Sprenger. 2015. "Randomizing Endowments: An Experimental Study of Rational Expectations and Reference-Dependent Preferences." Mimeo.

## **November 24: No class (Thanksgiving)**

## **Lecture 22 (December 1; Frank): Reference-dependent utility – applications**

\*Mas, Alexander. 2006. "Pay, Reference Points, and Police Performance." *Quarterly Journal of Economics* 121(3): 783-821.

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

Fehr, Ernst and Lorenz Götte. 2007. "Do Workers Work More if Wages Are High? Evidence from a Randomized Field Experiment." *American Economic Review* 97(1): 298-317.

Camerer, Colin, Linda Babcock, George Loewenstein and Richard Thaler. 1997. "Labor Supply of New York City Cabdrivers: One Day at a Time." *Quarterly Journal of Economics* 112(2): 407-441.

Farber, Henry S. 2005. "Is Tomorrow Another Day? The Labor Supply of New York City Cabdrivers." *Journal of Political Economy* 113(1): 46-82.

Farber, Henry S. 2008. "Reference-Dependent Preferences and Labor Supply: The Case of New York City Taxi Drivers." *American Economic Review* 98(3): 1069-1082.

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### **Lecture 23 (December 6; Leo): Gender and Identity**

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\*Bertrand, Marianne, Emir Kamenica, and Jessica Pan. 2015. "Gender Identity and Relative Income within Households." *Quarterly Journal of Economics* 130(2): 571-614.

\*Bursztyn, Leonardo, Amanda Pallais, and Thomas Fujiwara. 2016. "Acting Male," Mimeo.

\*Bursztyn, Leonardo, Michael Callen, Bruno Ferman, Saad Gulzar, Ali Hasanain, and Noam Yuchtman. 2016. "Political Identity: Experimental Evidence on Anti-Americanism in Pakistan," working paper.

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Beaman, Lori, Esther Duflo, Rohini Pande, and Petia Topalova. 2012. "A Policy Experiment in India." *Science* 334 (February): 582-586.

### **Lecture 24 (December 8; Frank): Psychology for economists**

\*Ross, Lee and Richard E. Nisbett. 1991. *The Person and the Situation: Perspectives of Social Psychology*. Chapters 1-3.

Diamond, Adele. 2013. "Executive Functions." *Annual Review of Psychology* 64: 135-168.

Cialdini, Robert B. 1993. *Influence, the Psychology of Persuasion*. New York: William Morrow Publishing Co.

Open Science Collaboration. 2015. "Estimating the Reproducibility of Psychological Science." *Science* 349(6251).

Almlund, M., Duckworth, A.L., Heckman, J.J. and Kautz, T.D., 2011. "Personality Psychology and Economics." National Bureau of Economic Research Working Paper No. 16822.

**December 13: Final exam (in class)**

## **Other MIT resources**

The Department of Economics values an inclusive environment. If you need a disability accommodation to access this course, please communicate with us early in the semester. If you have your accommodation letter, please meet with the faculty so that we can understand your needs and implement your approved accommodations. If you have not yet been approved for accommodations, please contact Student Disability Services at [uaap-sds@mit.edu](mailto:uaap-sds@mit.edu) to learn about their procedures. We encourage you to do so early in the term to allow sufficient time for implementation of services/accommodations that you may need.

The Writing and Communication Center (WCC) at MIT offers free one-on-one professional advice from communication experts (MIT lecturers who have advanced degrees and who are all published scholars and writers). The WCC works with undergraduate and graduate students, with post-docs and faculty. The WCC helps you strategize about all types of academic and professional writing as well as about all aspects of oral presentations (including practicing classroom presentations and conference talks as well as designing slides). No matter what department or discipline you are in, we help you think your way more deeply into your topic, help you see new implications in your data, research, and ideas.

The WCC also helps with all English as Second Language issues, from writing and grammar to pronunciation and conversation practice. The WCC is located in Kendall Square on the corner of Main and Hayward Streets (E39-115, 55 Hayward Street, in the same building that houses Cosi and across the street from Au Bon Pain). To register with our online scheduler and to make appointments, go to <https://mit.mywconline.com/>.

To access the WCC's many pages of advice about writing and oral presentations, go to <http://cmsw.mit.edu/writing-and-communication-center/>. The Center's core hours are Monday-Friday, 9:00 am to 6:00 pm; evening hours vary by semester. Check the online scheduler for up-to-date hours.