

14.160: Behavioral Economics
Syllabus – Fall 2017
Thurs 4:00 to 7:00 pm
E51-361

Instructors:

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Recitation: Fri 10:30-11:30am, E52-324

Office hours: TBA

Course overview:

This class covers recent topics in behavioral economics, with an emphasis on empirical applications and tests. Topics include deviations from the standard neoclassical model in terms of (i) preferences (time and risk preferences, reference dependence, and social preferences), (ii) beliefs and learning (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 main course objectives are as follows:

- 1) Obtain exposure to the frontier of empirical research in behavioral economics
- 2) Learn how to critically assess a rapidly evolving literature and how to develop novel ideas that contribute to it
- 3) Learn how to test (behavioral) economic theory using field experiments and non-experimental data
- 4) Develop and present a research proposal, as well as give feedback to others

The course is designed for first- and second-year **PhD students in economics**. It is meant to help launch students into conducting empirical research in behavioral economics, or to incorporate behavioral economics into their research in other fields. 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 neuroeconomics. PhD students in the economics department may combine 14.137 and 14.160 as a minor.

We particularly welcome and encourage students working in applied fields such as labor, public, development, IO, health, etc. to take this class if they are interested in incorporating ideas and tools from behavioral economics into their research. However, we believe that the class is also well suited for theory-oriented students who are interested in learning about the wonders of applied behavioral economics.

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, especially since this class will likely not be taught next year. If you have not taken these courses and are *not* an MIT economics PhD student, please contact the instructors regarding your participation in this course (and/or come to the first class to see whether the class is appropriate for you).

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 also strongly encouraged to attend the [Harvard Behavioral and Experimental Economics Workshop](#).

Course requirements and grading:

Grades will be determined based on (i) weekly short memos discussing starred readings (20%), (ii) problem sets (20%), (iii) written research proposal (15%), (iv) presentation of research proposal (30%), and (v) feedback on two other students' research proposals (15%). There will be no exams.

(i) Required Readings (20%)

The evening before each class (8 pm on Wednesday), students are required to submit two short summaries of the required readings for that day. Late submissions will not be accepted. The summaries should cover the following: (i) Why is the paper important (or why not)? (ii) An overview of the core contributions of the paper (iii) Any questions you have about the paper (optional). (iv) Any additional ideas that you might want to pursue on this topic (optional).

(ii) Problem Sets (20%)

There will be up to five (bi-weekly) problems sets. The problem sets are designed, in part, to help you flex your research muscles. The (planned!) due dates for the problem sets are Sept. 28, Oct. 10, Oct. 24, Nov. 9, and Nov. 30.

(iii) Written Research Proposal (15%)

Students will write a short research proposal on a topic related to the themes of the class (due Nov 16). By then, and ideally earlier, you must have met one of the instructors in office hours to discuss your idea for the research proposal. We can help you choose between ideas if necessary.

(iv) Presentation of Research Proposal (30%)

On the final day of class (Dec 7), students will present their proposal in-class. We will grade both the quality of the presentation and the content of proposal.

(v) Feedback on Other Students' Research Proposals (15%):

You will write 1-2 page written feedback to the proposal and presentation of two different students. For the presentation on Nov 30, please make sure that the commenters provide their feedback by Nov 28, Tuesday. For the presentation on Dec 7, please provide comments by Dec 1, Friday. Please write 1-2 pages of feedback to the proposal/ presentation, with focus on suggestions for improvements. Please also include brief summary what you found would be the main contributions of the project, as well as the proposals' limitations. Please note that the substance of comments will be more important than the length. For proposal and presentation, please make brief comments on how they could have written/ presented more effectively. Your feedback to the proposal and presentation will each count 7.5% of the grade.

Collapsed course outline:

| Date | # | Topic |
|-------|----|--|
| 9/7 | 1 | Intro + Default effects |
| 9/14 | 2 | Time Preferences I |
| 9/21 | 3 | Time Preferences II Visceral Factors, Projection Bias, and Attribution Bias |
| 9/28 | 4 | Risk Preferences and Reference Dependence |
| 10/5 | 5 | Social Preferences I |
| 10/12 | 6 | Social Preferences II |
| 10/19 | 7 | Limited Attention, Salience (half guest lecture by Xavier Gabaix) |
| 10/26 | 8 | Mental Accounting Beliefs and Learning |
| 11/2 | 9 | Behavioral Development and Poverty |
| 11/9 | 10 | Behavioral Health (half guest lecture by Jon Gruber) |
| 11/16 | 11 | Wrap-up + Psychology for Economists |
| 11/23 | -- | No class -- Thanksgiving |
| 11/30 | 12 | In-class Presentations of Research Proposal 1 |
| 12/7 | 13 | In-class Presentations of Research Proposal 2 |

COURSE READINGS

Below is a tentative reading list for this course. We will almost certainly make some changes to this list, but they broad structure and the majority of papers will remain fairly similar to the below list.

There is no textbook for the course. Starred readings are required, and you are required to read these papers before class and submit a brief write-up on each starred reading as described above.

General readings:

Overview articles

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

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 (not compulsory)

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.

Bazerman, Max and Don Moore. 2012. *Judgment in Managerial Decision Making* (8th Edition), John Wiley & Sons.

Lecture 1: Introduction and Default Effects

(No write-ups due on starred readings this week)

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

*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.

Meredith Fowlie, Catherine Wolfram, C. Anna Spurlock, Annika Todd, Patrick Baylis, Peter Cappers. 2017. "Default Effects and Follow-On Behavior: Evidence from an Electricity Pricing Program". NBER Working Paper No. 23553.

Lecture 2: Time preferences I: Theory and Applications

Recitation:

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:

Andreoni, James, Michael A. Kuhn, and Charles Sprenger. 2015. "Measuring Time Preferences: A Comparison of Experimental Methods." *Journal of Economic Behavior and Organization* 116: 451-464.

Cohen, Jonathan, Keith Marzilli Ericson, David Laibson, and John Myles White. 2016. "Measuring Time Preferences." Working Paper 22455, National Bureau of Economic Research.

*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.

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* 123(6): 1227-1277.

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.

Eliaz, Kfir 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.

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

Lecture 3: Time Preferences II: Open Research Questions; Visceral Factors and Projection Bias

Recitation:

Fudenberg, Drew, and David K. Levine. 2006. "A Dual-Self Model of Impulse Control." *American Economic Review* 96 (5): 1449-76.

*Gul, Faruk and Wolfgang Pesendorfer. 2001. "Temptation and Self-Control." *Econometrica* 69(6): 1403-1435.

*Toussaert, Severine. 2016. "Eliciting Temptation and Self-control Through Menu Choices: A Lab Experiment." Mimeo.

Lecture:

Time Preferences:

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

Bai, Liang, Benjamin Handel, Edward Miguel and Gautam Rao. 2017. "Self-Control and Preventive Health: Evidence from Hypertension in India." 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. 2017 "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.

Visceral Factors and Projection Bias:

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

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

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.

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.

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

Lecture 4: Risk Preferences and Reference-Dependent Preferences

Recitation:

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

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

*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.

Lecture:

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.

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.

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.

Crawford, Vincent and JuanJuan Meng. 2011. "New York City Cab Drivers' Labor Supply Revisited: Reference-Dependent Preferences with Rational Expectations Targets for Hours and Income." *American Economic Review* 101(5): 1912-1932.

*DellaVigna, Stefano; Attila Lindner, Balazs Reizer, and Johannes Schmieider. 2014. "Reference Dependent Job Search: Evidence from Hungary." Mimeo.

Lecture 5: Social Preferences I: Altruism, Fairness, Envy, Reciprocity

No recitation (MIT holiday)

Lecture:

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

Andreoni, James. 1990. "Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving." *Economic Journal* 100: 464-477.

Andreoni, James. 1989. "Giving with Impure Altruism: Applications to Charity and Ricardian Equivalence." *Journal of Political Economy* 97(6): 1447-1458.

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

Levitt, Steven D. and John A. List. 2007. "What do Laboratory Experiments Measuring Social Preferences Reveal about the Real World?" *Journal of Economic Perspectives* 21(2): 153-174.

*Rao, Gautam. 2013. "Familiarity Does not Breed Contempt: Diversity, Discrimination and Generosity in Delhi Schools." Mimeo.

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

Breza, E., S. Kaur and Y. Shamdasani. 2015. "The Morale Effects of Pay Inequality." Mimeo.

Finan, F. and Schechter, L., 2012. Vote-Buying and Reciprocity. *Econometrica*, 80(2): 863-881.

Haushofer, Johannes, James Reisinger, and Jeremy Shapiro. 2015. "Your Gain Is My Pain: Negative Psychological Externalities of Cash Transfers." Mimeo.

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.

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.

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.

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.

Lecture 6: Social Preferences II + Gender: Social Image, Norms and Pressure

Recitation:

*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.

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

Lecture:

Akerlof, George and Rachel E. Kranton. 2000. "Economics and Identity." *Quarterly Journal of Economics* 115(3): 715-753.

Babcock, Linda, Maria P. Recalde, Lise Vesterlund, and Laurie Weingart. 2017. "Gender Differences in Accepting and Receiving Requests for Tasks with Low Promotability." *American Economic Review*, 107(3): 714-47.

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

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

Burzstyn, Leo and Rob Jensen. 2015. "How Does Peer Pressure Affect Educational Investments?" *Quarterly Journal of Economics* 130(3): 1329-1367.

Bursztyn, Leonardo, Amanda Pallais, and Thomas Fujiwara. 2016. "Acting Wife." 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.

Bursztyn, L., Ferman, B., Fiorin, S., Kanz, M., Rao, G. 2017. "Social Image and Status Goods: Experimental Evidence from Platinum Credit Cards in Indonesia." forthcoming, *Quarterly Journal of Economics*.

DellaVigna, Stefano, John A. List, and Ulrike Malmendier. 2012. "Testing for Altruism and Social Pressure in Charitable Giving." *Quarterly Journal of Economics* 127(1): 1-56.

*DellaVigna, Stefano, John A. List, Ulrike Malmendier, and Gautam Rao. 2017. "Voting to Tell Others." *Review of Economic Studies* 84(1): 143-181.

Dubé, Jean-Pierre, Xueming Luo, Zheng Fang. 2015. "Self-Signaling and Prosocial Behavior: a Cause Marketing Mobile Field Experiment" Working Paper No. w21475, National Bureau of Economic Research.

Niederle, Muriel and Lise Vesterlund. 2007. "Do Women Shy Away From Competition? Do Men Compete Too Much?" *Quarterly Journal of Economics* 122(3): 1067-1101.

(Review Article) Bursztyn, Leonardo, and Robert Jensen. 2016. "Social Image and Economic Behavior in the Field: Identifying, Understanding and Shaping Social Pressure." Working Paper No. w23013, National Bureau of Economic Research.

Perez-Truglia, R. and Cruces, G. 2017. "Partisan Interactions: Evidence from a Field Experiment in the United States." *Journal of Political Economy* 125(4): 1208-1243.

Lecture 7: Limited Attention and Salience

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

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

Bordalo, P., Gennaioli, N. and Shleifer, A., 2012. "Salience and Consumer Choice." Working Paper No. w17947, National Bureau of Economic Research.

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.

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.

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

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

Hanna, R., S. Mullainathan, and J. Schwartzstein. 2014. "Learning through Noticing: Theory and Evidence from a Field Experiment." *Quarterly Journal of Economics* 129(3): 1311-1353.

Goldin, Jacob and Tatiana Homonoff. 2013. "Smoke Gets in Your Eyes: Cigarette Tax Salience and Regressivity." *American Economic Journal: Economic Policy* 5(1): 302-336.

Bertrand, M., Karlan, D., Mullainathan, S., Shafir, E. and Zinman, J., 2010. "What's Advertising Content Worth? Evidence from a Consumer Credit Marketing Field Experiment." *Quarterly Journal of Economics* 125(1): 263-306.

Karlan, Dean, Margaret McConnell, Sendhil Mullainathan, and Jonathan Zinman, 2010. "Getting to the Top of Mind: How Reminders Increase Saving." Working Paper No. w16205, National Bureau of Economic Research.

Hallsworth, Michael, John List, Robert Metcalfe, Ivo Vlaev. 2014. "The Behavioralist as Tax Collector: Using Natural Field Experiments to Enhance Tax Compliance." Working Paper No. w20007, National Bureau of Economic Research.

Lecture 8: Beliefs / Learning and Mental Accounting

Recitation:

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

*Rabin, Matthew. 2002. "Inference by Believers in the Law of Small Numbers." *Quarterly Journal of Economics* 117(3): 775-816.

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

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

Beliefs and Learning:

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.

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.

*Möbius, M.M., Niederle, M., Niehaus, P. and Rosenblat, T.S., 2014. "Managing Self-Confidence." Working Paper.

Mobius, M. and T. Rosenblat. 2014. "Social Learning in Economics." *Annual Review of Economics*, 6(1): 827-847.

Chandrasekhar, A.G., Larreguy, H. and Xandri, J.P., 2012. "Testing Models of Social Learning on Networks: Evidence from a Framed Field Experiment." Working Paper.

Mobius, M., T. Phan, and A. Szeidl. 2015. "Treasure Hunt: Social Learning in the Field." Working Paper No. w21014, National Bureau of Economic Research.

Chen, Daniel L., Tobias J. Moskowitz, and Kelly Shue. 2016. "Decision Making Under the Gambler's Fallacy: Evidence from Asylum Judges, Loan Officers, and Baseball Umpires." *Quarterly Journal of Economics* 131(3): 1181-1242.

Enke, Benjamin, and Florian Zimmermann. 2016. "Correlation Neglect in Belief Formation." Mimeo.

Mental Accounting:

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

Rabin, Matthew, and Georg Weizsäcker. 2009. "Narrow Bracketing and Dominated Choices." *American Economic Review* 99(4): 1508-1543.

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Lecture 9: Behavioral Development and Poverty

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Lecture 10: Behavioral Health

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Additional readings TBD

Lecture 11: Welfare and Policy with Behavioral Agents/ Psychology for Economists

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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.

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Additional readings TBD

Lecture 12: Amazing In-Class Presentations by Students 1

Lecture 13: Amazing In-Class Presentations by Students 2

Extra Reading: Welfare and Policy with Behavioral Agents

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

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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 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 WCC at MIT (Writing and Communication Center) offers *free* one-on-one professional advice from communication experts. The WCC is staffed completely by MIT lecturers. All have advanced degrees. All are experienced college classroom teachers of communication. All are all are published scholars and writers. Not counting the WCC's director's years (he started the WCC in 1982), the WCC lecturers have a combined 133 years' worth of teaching here at MIT (ranging from 4 to 24 years). The WCC works with undergraduate, graduate students, post-docs, faculty, staff, alums, and spouses. 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 & conference talks as well as designing slides). No matter what department or discipline you are in, the WCC helps you think your way more deeply into your topic, helps 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 E18-233, 50 Ames Street). To guarantee yourself a time, make an appointment. 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/> . Check the online scheduler for up-to-date hours and available appointments.