

## ECOS11: Economics and Psychology

### Preliminary outline For 2<sup>nd</sup> Part of Semester

Mark Dean

#### **Bounded Rationality (4 weeks)**

Overview – Conlisk

Rubinstein book

#### **Evidence**

Brigitte C. Madrian & Dennis F. Shea, 2001 ["THE POWER OF SUGGESTION: INERTIA IN 401\(k\) PARTICIPATION AND SAVINGS BEHAVIOR,"](#) The Quarterly Journal of Economics, MIT Press, vol. 116(4), pages 1149-1187, November

\*Caplin, Andrew, Mark Dean, and Daniel Martin. 2011. ["Search and Satisficing."](#) American Economic Review, 101(7): 2899–2922.

\*Anton Cheremukhin. Anna Popova. Antonella Tutino, 2012 ["Rationalizing Variations in Behavioral Decisions."](#) Mimeo

\* Chetty, R., Looney, A. and K. Kroft (2009) ["Salience and Taxation: Theory and Evidence,"](#) *American Economic Review* 99(4), 1145-1177

\*Iyengar, S.S., and Kamenica, E. (2008) ["Choice Proliferation, Simplicity Seeking, and Asset Allocation,"](#) *Journal of Public Economics*, 94(7-8), 530-539.

Lacetera, Nicola, Devin G. Pope, and Justin R. Sydnor. 2012 ["Heuristic Thinking and Limited Attention in the Car Market."](#) *American Economic Review*, 102(5): 2206–36.

Mosteller, F. and Nogee, P. 1951. ["An Experimental Measurement of Utility,"](#) *Journal of Political Economy*, 59, 371-404.

#### **Models**

\* Bolton, P. and Faure-Grimaud, A. (2009) ["Thinking Ahead: The Decision Problem,"](#) *Review of Economic Studies*, 76, 1205–1238

\* Bolton, P. and Faure-Grimaud, A. (2010) ["Satisficing Contracts"](#), *Review of Economic Studies*, 77, 937–971.

Caplin, Andrew & Dean, Mark, 2011. ["Search, choice, and revealed preference,"](#) *Theoretical Economics*, Econometric Society, vol. 6(1), January.

Caplin, Andrew and Daniel Martin, 2012. ["Framing Effects and Optimization"](#) Mimeo

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

Eliasz, K. and Spiegel, R. (2011) ["On the Strategic Use of Attention Grabbers"](#), Theoretical Economics 6, 127-155.

Gabaix, X. (2010). ["A Sparsity-Based Model of Bounded Rationality"](#), NYU mimeo.

Xavier Gabaix & David Laibson & Guillermo Moloche & Stephen Weinberg, 2006. ["Costly Information Acquisition: Experimental Analysis of a Boundedly Rational Model,"](#) American Economic Review, American Economic Association, vol. 96(4), pages 1043-1068, September.

Gul, F, Pesendorfer W, Strzalecki T., 2012. [Behavioral Competitive Equilibrium and Extreme Prices](#) , Mimeo

\*Kamenica, E. (2008) [Contextual Inference in Markets: On the Informational Content of Product Lines,](#) *American Economic Review*, 98(5), 2127–2149.

\*Filip Matejka & Alisdair McKay, 2011. ["Rational Inattention to Discrete Choices: A New Foundation for the Multinomial Logit Model,"](#) CERGE-EI Working Papers wp442, The Center for Economic Research and Graduate Education - Economic Institute, Prague.

Christopher A. Sims, 2006. ["Rational Inattention: Beyond the Linear-Quadratic Case,"](#) American Economic Review, American Economic Association, vol. 96(2), pages 158-163, May.

Stahl, Dale O, II, 1989. ["Oligopolistic Pricing with Sequential Consumer Search,"](#) American Economic Association, vol. 79(4), pages 700-712, September.

\*Woodford, M. (2012). Inattentive Valuation and Reference-Dependent Choice. [Inattentive Valuation and Reference-Dependent Choice.](#) Mimeo

Yang, Ming, [Optimality of Securitized Debt with Endogenous and Flexible Information Acquisition](#)  
Optimality of Securitized Debt with Endogenous and Flexible Information Acquisition (June 20, 2012).

## **Reference Dependent Preferences (3 weeks)**

### **Evidence**

M Abdellaoui, H. Bleichrodt, and O. L'Haridon. [A tractable method to measure utility and loss aversion](#)

Johannes Abeler & Armin Falk & Lorenz Goette & David Huffman, 2011. ["Reference Points and Effort Provision,"](#) American Economic Review, American Economic Association, vol. 101(2), pages 470-92, April.

\*Camerer C. (2000) ["Prospect Theory in the Wild: Evidence from the Field,"](#) chap. 16 in D. Kahneman and A. Tversky, eds., Choices, Values, and Frames, Cambridge: University Press.

\*Kahneman, D., Knetsch, J.L., and R.H. Thaler (1990) "[Experimental Tests of the Endowment Effect and the Coase Theorem](#)," *Journal of Political Economy*, 98(6):1325-48.

\*KAHNEMAN, Daniel, and Amos TVERSKY, 1979. [Prospect Theory: An Analysis of Decision under Risk](#) *Econometrica*, 47(2), 263–292

List, J. (2003) "[Does Market Experience Eliminate Market Anomalies?](#)" *Quarterly Journal of Economics*, 118(1), 41-71.

Yusufcan Masatlioglu and Neslihan Uler, 2012, [Understanding the Reference Effect](#) , Mimeo

\*Plott, C., and K. Zeiler (2005) "[The Willingness to Pay- Willingness to Accept Gap, The "Endowment Effect," Subject Misconceptions and Experimental Procedures for Eliciting Valuations](#)". *American Economic Review* 95(3), 530-545. .

\*Charles Sprenger, 2010 "An Endowment effect for Risk: Experimental Tests of Stochastic Reference Points", "[An Endowment effect for Risk: Experimental Tests of Stochastic Reference Points](#)", Mimeo

## **Models**

\*Hart, O. (2008) "[Reference Points and the Theory of the Firm](#)," *Economica*, 75, 404–411.

\*Hart, O. and Moore, J. (2006) "[Contracts as Reference Points](#)," *Quarterly Journal of Economics*, 123(1), 1-48

Heidues, P. and Köszegi, B. (2005) "[The Impact of Consumer Loss Aversion on Pricing](#)," U.C. Berkeley mimeo.

\*Heidues, P. and Köszegi, B. (2008) "[Competition and Price Variation when Consumers are Loss Averse](#)," *American Economic Review*, 98(4), 1245-1268.

Koszegi, B. and Rabin, M. (2006) "[A Model of Reference-Dependent Preferences](#)", *Quarterly Journal of Economics* 121(4), 1133-1166.

\*Koszegi, B. and Rabin, M. (2007), [Reference-Dependent Risk Attitudes](#), *American Economic Review*, 97(4), 1047-1073.

Koszegi, B. and Rabin, M., (2008) [Reference-Dependent Consumption Plans](#), *American Economic Review*, 99(3), 909-936.

\*Masatlioglu, Yusufcan & Ok, Efe A., 2005. "Rational choice with status quo bias," "[Rational choice with status quo bias](#)," *Journal of Economic Theory*, Elsevier, vol. 121(1), pages 1-29, March.

Spiegler, R. (2011), "[Monopoly Pricing when Consumers are Antagonized by Unexpected Price Increases: A "Cover Version" of the Heidhues-Koszegi-Rabin Model](#)," *Economic Theory*, forthcoming.

Tversky, Amos & Kahneman, Daniel, 1992 "[Advances in Prospect Theory: Cumulative Representation of Uncertainty](#)," *Journal of Risk and Uncertainty*, Springer, vol. 5(4), pages 297-323, October.

Tversky, Amos & Kahneman, Daniel, 1991. "[Loss Aversion in Riskless Choice: A Reference-Dependent Model](#)," *The Quarterly Journal of Economics*, MIT Press, vol. 106(4), pages 1039-61, November.

## **Neuroeconomics (2 Weeks)**

### **Overview**

\*Bernheim, D. (2009), [On the Potential of Neuroeconomics: A Sober \(but Hopeful\) Appraisal](#)), , American Economic Association, vol. 94(5), pages 1558-1590, December

\*Camerer, C. [“The Case for Mindful Economics”](#) in: The Foundations of Positive and Normative Economics, by Andrew Caplin and Andrew Shotter (eds.). Oxford University Press. 2008.

Camerer, C., Loewenstein, G., and D. Prelec, 2005, ["Neuroeconomics: How Neuroscience Can Inform Economics,"](#) Journal of Economic Literature, American Economic Association, vol. 43(1), pages 9-64, March.

Dean, M, 2012 [“What Can Neuroeconomics Tell Us About Economics \(and Vice Versa\)?”](#) , Mimeo

\*Fehr, E A. Rangel [Neuroeconomic foundations of economic choice - Recent advances.](#) ... Journal of Economic Perspectives, 2011, 25(4):3-30.

\*Faruk Gul and Wolfgang Pesendorfer: ["The Case for Mindless Economics"](#) " : The Foundations of Positive and Normative Economics, by Andrew Caplin and Andrew Shotter (eds.). Oxford University Press. 2008.

### **Reward Prediction Error**

\*Caplin, A. and Mark Dean, ["Dopamine, Reward Prediction Error, and Economics,"](#) Journal of Economics, 123:2 (2008), 663-702.

Caplin, A. & Mark Dean & Paul W. Glimcher & Robb B. Rutledge, 2010. ["Measuring Beliefs and Rewards: A Neuroeconomic Approach,"](#) " The Quarterly Journal of Economics, MIT Press, vol. 125(3), pages 923-960, August.

Berridge, Kent C. and Terry E. Robinson, ["What is the Role of Dopamine in Reward: Hedonic Impact, Reward Learning, or Incentive Salience?,"](#) Brain Research Reviews, 28 (1998), 309-369.

O'Doherty, J., P. Dayan, K. J. Friston, H. D. Critchley and R. J. Dolan, ["Temporal Difference Models Account and Reward-Related Learning in the Human Brain,"](#) " Neuron, 38 (2003), 329-337.

\*Schultz, Wolfram, Paul Apicella, and Tomas Ljungberg, ["Responses of Monkey Dopamine Neurons to Reward and Conditioned Stimuli During Successive Steps of Learning a Delayed Response Task,"](#) Journal of Neuroscience, 13 (1993), 900--913.

Schultz, Wolfram, Peter Dayan, and P. Read Montague, ["A Neural Substrate of Prediction and Reward,"](#) *Science*, 275 (1997), 1593-1599.

\*Glimcher P.W. (2011). [Understanding dopamine and reinforcement learning: The dopamine reward prediction error hypothesis.](#) *Proc Natl Acad Sci*, 108 Suppl 3: 15647-1565

Bernheim, B. Douglas, and Antonio Rangel. 2004. ["Addiction and Cue-Triggered Decision Processes."](#) *American Economic Review*, 94(5): 1558–1590.

## **Temptation and Self Control**

### **Evidence**

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

\*Bryan, G, Karlan, D & Nelson, S (2010). [.'Commitment Devices'](#). *Annual Review of Economics* 2, 671\_698

\*Casari, M. (2009). [Pre-commitment and flexibility in a time decision experiment.](#) *Journal of Risk and Uncertainty* 38(2), 117-14.

\*Della Vigna, S. and Malmendier, U. (2006) ["Paying Not To Go To The Gym"](#), *American Economic Review*, 9, 694-719.

Daniel Houser & Daniel Schunk & Joachim Winter & Erte Xiao, 2010. ["Temptation and commitment in the laboratory,"](#) IEW Working Papers iewwp488, Institute for Empirical Research in Economics - University of Zurich.

Loewenstein, G. and D. Prelec (2000) ["Anomalies in Intertemporal Choice: Evidence and an Interpretation,"](#) *Quarterly Journal of Economics*, 107(2), 573-597.

Meier, S. and Sprenger, C. (2010) ["Present-Biased Preferences and Credit Card Borrowing,"](#) *American Economic Journal: Applied Economics*, 2(1), 193–210

\*Vohs, K.D., Baumeister, R.F., Schmeichel, B.J., Twenge, J.M., Nelson, N.M., & Tice, D.M. (2008). [Making choices impairs subsequent self-control: A limited resource account of decision making, self-regulation, and active initiative.](#) *Journal of Personality and Social Psychology*, 94, 883-898.

### **Models**

\*Manuel Amador & Iván Werning & George-Marios Angeletos, 2006. ["Commitment vs. Flexibility,"](#) *Econometrica*, Econometric Society, vol. 74(2), pages 365-396, 03.

\*Della Vigna, S. and Malmendier, U. (2004) ["Contract Design and Self-Control: Theory and Evidence,](#) *Quarterly Journal of Economics*, 119, 353-402.

Eliaz, K. and R. Spiegel (2006) "[Contracting with Diversely Naïve Agents](#)", *Review of Economic Studies*, 73(3) 689-714.

\*Lipman, B and W Pesendorfer, 2011, "Temptation", "[Temptation](#)", Mimeo

\*Fudenberg, and Levine, D. (2006) "[A Dual-Self Model of Impulse Control](#)," *American Economic Review*, 96(5), 1449 – 1476.

Koszegi, B. and Heidues, P. (2010) "[Exploiting Naivete about Self-Control in the Credit Market](#), *American Economic Review*, 100(5), 2279-2303. [Web Appendix \(Proofs\)](#)

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

O'Donoghue, Ted, and Rabin, Matthew (1999) "[Doing it Now or Later](#)." *American Economic Review*, 89, 103-124.

O'Donoghue, Ted & Rabin, Matthew, 2006 "[Optimal sin taxes](#)," *Journal of Public Economics*, Elsevier, vol. 90(10-11), pages 1825-1849, November.

\*Emre Ozdenoren & Stephen W. Salant & Dan Silverman, 2012 "[Willpower And The Optimal Control Of Visceral Urges](#)," *Journal of the European Economic Association*, European Economic Association, vol. 10(2), pages 342-368, 04.