

Behavioral Economics: Economics and Psychology

Econ 305A – 01

Spring 2008

Class: Tuesday 6:30 – 9:00
Eliot 102

Instructor: Patrick McAlvanah

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Office: McMillan 361

(or Eliot 311)

Office hours: Monday 5:30 -6:30

Tuesday 5:30 -6:30

In theory, there is no difference between theory and practice. In practice, there is.

-Chuck Reid

Behavioral Economics is a relatively new sub-field of economics that incorporates insights about behavior from psychology into economics, with the goal of improving the realism and accuracy of the standard economic models. Formally, behavioral economics details observed behavior that is contrary to the predictions of the current models and generates new and improved models to describe behavior. Informally, behavioral economics means refusing to keep a straight face when economists describe people as perfectly rational, completely self-interested, walking calculators and asking “How do people actually behave, why, and what are the implications for economics?”

Prerequisites: Principles of Microeconomics (Econ 103B). Price Theory (Econ 401) is recommended but not required.

Text: Unfortunately, no undergraduate Behavioral Economics textbook currently exists. As such, this class will be based entirely on my lecture notes and the original papers in the field.

Course Website: <http://artsci.wustl.edu/~psmcalva/econ305.html>

I will post the lecture notes and problem sets here.

Grading: Your grade will consist of a mixture of your scores on problem sets and exams. I am leaning towards the following weighting:

Problem Sets	33%
Exams	66%

The problem sets are designed to increase and test your knowledge of the mathematical elements of the topics we’ll cover. The exams will be much less mathematical, and will be more focused on testing your “big picture” intuition and understanding.

There will be 2 midterms and a final. The final will **NOT** be cumulative and will be weighted equally as the midterms.

All exams are closed book exams.

No makeup exams will be given. Valid excuses for missing an exam are illness or special family circumstances. To be excused from an exam, notification should be given before the exam begins by contacting me or the departmental secretary. If you are excused, your final grade will be based on two exams.

If you have a learning disability or extenuating circumstance, you must notify me before the examination.

Very Tentative Schedule: (Your mileage may vary. Past performance is not a guarantee of future results)

1. Jan 15: Introduction and Overview
2. Jan 22: Basic Economic Model of the Consumer, $\frac{1}{2}$ of Expected Utility
3. Jan 29: $\frac{1}{2}$ of Expected Utility, Prospect Theory
4. Feb 5: Applications of Prospect Theory, **Problem Set 1** Review
5. Feb 12: **TEST ONE**
6. Feb 19: Standard Intertemporal Choice, $\frac{1}{2}$ of Behavioral Intertemporal Choice
7. Feb 26: $\frac{1}{2}$ of Behavioral Intertemporal Choice, Procrastination
8. March 4: Savings, Self-Control, Willpower; $\frac{1}{2}$ Heuristics & Biases I
9. March 11: No class - Spring break
10. March 18: $\frac{1}{2}$ Heuristics & Biases I, Heuristics & Biases II
11. March 25: Lecture to be determined, **Problem Set 2** Review
12. April 1: **TEST TWO**
13. April 8: Fairness + Social Preferences
14. April 15: Happiness
15. April 22: Mental Accounting, $\frac{1}{2}$ of Neuroeconomics
16. April 29: $\frac{1}{2}$ of Neuroeconomics, Libertarian / Asymmetric Paternalism
ProblemSet 3 Review
17. May 6: **TEST THREE**