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:

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<tr>
<th>Date</th>
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<tr>
<td>9/7</td>
<td>1</td>
<td>Intro + Default effects</td>
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<td>9/14</td>
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<td>Time Preferences I</td>
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<td>9/21</td>
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<td>Time Preferences II</td>
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<td>Visceral Factors, Projection Bias, and Attribution Bias</td>
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<td>9/28</td>
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<td>10/12</td>
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<td>Social Preferences II</td>
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<td>10/19</td>
<td>7</td>
<td>Limited Attention, Salience (half guest lecture by Xavier Gabaix)</td>
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<td>10/26</td>
<td>8</td>
<td>Mental Accounting Beliefs and Learning</td>
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<td>Behavioral Development and Poverty</td>
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<td>Behavioral Health (half guest lecture by Jon Gruber)</td>
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<td>Wrap-up + Psychology for Economists</td>
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<td>No class -- Thanksgiving</td>
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<td>11/30</td>
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<td>In-class Presentations of Research Proposal 1</td>
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<td>In-class Presentations of Research Proposal 2</td>
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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


Books (not compulsory)


Lecture 1: Introduction and Default Effects
(No write-ups due on starred readings this week)


Lecture 2: Time preferences I: Theory and Applications

Recitation:


Lecture:


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

Recitation:


Lecture:

Time Preferences:


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


Visceral Factors and Projection Bias:


Lecture 4: Risk Preferences and Reference-Dependent Preferences

Recitation:


Lecture:


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

No recitation (MIT holiday)

Lecture:


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

**Recitation:**


**Lecture:**


Lecture 7: Limited Attention and Salience


Lecture 8: Beliefs / Learning and Mental Accounting

Recitation:


Beliefs and Learning:


Mental Accounting:


**Lecture 9: Behavioral Development and Poverty**


Lecture 10: Behavioral Health


Additional readings TBD

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


*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**


**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 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.