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

Instructors:
Abhijit Banerjee, E52-540
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Office hours by appointment

Frank Schilbach, E52-560
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Office hours: Sign up at http://economics.mit.edu/faculty/fschilb/office

Teaching Assistant:
Aicha Ben Dhia
Email: 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**

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


Books


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


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


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


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


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


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

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


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


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


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


Lecture 9 (Oct 6; Abhijit): Social preferences


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

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


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


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


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


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

**Lecture 14 (November 1; Abhijit): Salience**


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


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


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


*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**


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


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


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

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


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


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


**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 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 are 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.