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Winter 2024

Office Hours: Mon, 11-12:30, SSPA 3177

Syllabus: Behavioral Economics

The main objectives of the class are to learn

- (I) standard models of economic behavior—utility maximization, expected utility, Nash equilibrium, discounted utility, auction equilibria—and their predictions,
- (II) behavioral patterns that persistently violate these models,
- (III) several behavioral models—prospect theory, hyperbolic discounting, models of fairness, altruism and spite.

The grade will be based on two midterms (25% each) and a final (30%). The midterms will be on Feb 9 and Mar 8 respectively. The final is on Fri, Mar 22 at 1:30-3:30 pm. Homework will be assigned regularly (7-8 assignments) and will be worth 15% of the grade. Attendance is 5%. The graded tests are all multiple choice, but the homeworks and discussions have more essay-like topics as well.

The discussion sections will start on January 16. There are seven of them. You can pick any slot.

My office hours will be Monday 11-12:30 in SSPA 3177. This is the best opportunity to talk to me about the class material and any other academic topics.

All class files will be posted on the canvas page.

There is no single textbook that covers all relevant issues. Our main textbook is Eric Angner's "A Course in Behavioral Economics" (second edition), which is available in the bookstore. This textbook covers about 60% of the material. The rest will be taken from a variety of sources that includes some popular books and academic papers.

The popular books (inexpensive and available at Amazon) are

- (B1) "Thinking Fast and Slow" by Daniel Kahneman

(B2) “Misbehaving” by R. Thaler

(B3) “Nudge: Improving Decisions and Health, Wealth, and Happiness” by R. Thaler and C. Sunstein

(B4) “Predictably Irrational: The Hidden Forces that Shape Our Decisions” by Dan Ariely

(B5) “Why Smart People Make Big Money Mistakes and How to Correct Them: Lessons from the Life-Changing Science of Behavioral Economics” by G. Belsky and T. Gilovich

The class will cover the following topics (more details to be added.)

- Week 1. Introduction: History, methods, and objectives of behavioral economics.
Utility Maximization. Transitivity. Weak axioms of Revealed Preference.
Angner: Chapters 1, 2
Reading: [“Psychology and Economics”](#) by M. Rabin, pp 32–38
- Week 2: Behavioral critique. Context Effects. Bounded Rationality.
Reading: slides 4–5
Angner: Chapter 3.4
- Week 3: Decisions under Uncertainty. Expected Value and Expected Utility Models.
Risk aversion. Allais Paradox.
Reading: slides 6–8
Angner: Chapter 4.1, 4.2, 6
- Week 4. Independence and Dominance axioms. Loss Aversion. Calibration Theorem.
Prospect Theory, Mental Accounting.
Reading: slides 11-12
Angner: Chapter 7.1, 7.3, 7.4, 7.6
[“Psychology and Economics”](#) by M. Rabin, pp 24–29

- First Midterm: February 6.
- Week 5. Subjective Expected Utility. Biases in Beliefs. Ambiguity Aversion.
Angner: Chapter 4, 5, 7.5
- Week 6: Fairness and Social Preferences. Charness - Rabin Behavioral Model of Altruism and Spite.
Reading:
Angner: Chapter 11.2, 11.3
[“Psychology and Economics: Evidence from the Field”](#) by S. DellaVigna, pp. 336–340
- Week 7 Game Theory. Dominant Strategies.
- Weeks 8. Backward Induction. Nash equilibrium in pure and mixed strategies. Behavioral Evidence.
Reading: slides 15–18
Angner: Chapter 10.1, 10.2, 10.3
- Second Midterm: March 6
- Week 9: Standard Auctions: first-price, second-price, English, Dutch. Private and interdependent values. Behavioral Evidence.
Reading: slides 19–21
[“Auctions: A Survey of Experimental Research”](#) by J. Kagel
- Week 10: The Discounted Utility Model. Behavioral Critique. Hyperbolic Discounting. Procrastination. Commitment.
Reading: slides 23–26
Angner: Chapters 8-9
[“Time Discounting and Time Preference: A Critical Review”](#) by S. Frederick, G. Loewenstein, and T. O’Donoghue, 2002 (entire paper)

- Week 10. Policy implications of behavioral economics.

Reading: slides 26–27

Angner: Chapter 12