

## **Applied Behavioural Economics**

**Professor Michèle Belot**

**Half Credit course, Academic year 2019-20**

### **2<sup>d</sup> teaching block**

#### **Description**

The goal of this course is to review seminal contributions in behavioural economics with an applied angle. We will focus on five themes that have received considerable attention in behavioural economics over the last two decades. Most of the work has been inspired by experimental evidence (in the lab or in the field), which inspired new models that were in turn tested (in the field or in the lab) or used to design policy interventions. We will then also point to important future research avenues.

#### **Syllabus**

##### **Basic concepts of behavioural economics**

- **Inter-temporal Decision Making:**

We will discuss behavioural anomalies in inter-temporal decision making (such as present bias) and models that have been proposed to reconcile the evidence. We will then move on to applications and policy instruments that have been designed to overcome these anomalies.

- O'Donoghue, T., & Rabin, M. (1999). Doing it now or later. *American Economic Review*, 89(1), 103-124.
- Thaler, Richard H. and Shlomo Benartzi, Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving, *Journal of Political Economy* 2004 112:S1, S164-S187.
- Giné X, Karlan D, Zinman J. Put your money where your butt is: a commitment contract for smoking cessation. *Am Econ J Appl Econ*. 2010;213–235. <http://dx.doi.org/10.1257/app.2.4.213>.
- Loewenstein G, Asch DA, Friedman JY, Melichar LA, Volpp KG. Can behavioural economics make us healthier? *BMJ*. 2012;344 <http://dx.doi.org/10.1136/bmj.e3482>. [PubMed]
- Matjasko JL, Cawley JH, Baker-Goering MM, Yokum DV. Applying Behavioral Economics to Public Health Policy: Illustrative Examples and Promising Directions. *American journal of preventive medicine*. 2016;50(5 Suppl 1):S13-S19. doi:10.1016/j.amepre.2016.02.007.

- **Behavioural economics and the gender gap in labour outcomes**

We will discuss the seminal and more recent experimental work on gender gaps in labour market outcomes.

- Gneezy, Uri, Muriel Niederle, Aldo Rustichini, “Performance in Competitive Environments: Gender Differences”, *Quarterly Journal of Economics*, CXVIII, August 2003, 1049 – 1074.
- Niederle, Muriel, and Lise Vesterlund, “[Do Women Shy away from Competition? Do Men Compete too Much?](#),” *Quarterly Journal of Economics*, August 2007, Vol. 122, No. 3: 1067-1101.

- **Poverty and bounded rationality**

We will discuss the recent and seminal work by Mullainathan and Shafir, proposing a causal link between poverty and cognitive function.

- Mullainathan, S. and E. Shafir (2013), *Scarcity: Why Having Too Little Means So Much*, Times Books.
- Mani, Mullainathan, Shafir and Zhao (2013), Poverty Impedes Cognitive Function, *Science*, Volume 341

- **Pro-social preferences and morality**

We will review basic models introducing pro-social preferences, i.e. non-selfish preferences; as well as discussing recent experimental evidence from the lab and the field, challenging basic models of pro-social preferences.

- Fehr, Ernst, Klaus M. Schmidt, A Theory of Fairness, Competition, and Cooperation, *The Quarterly Journal of Economics*, Volume 114, Issue 3, August 1999, Pages 817–868, <https://doi.org/10.1162/003355399556151>
- Dana, J., Weber, R.A. & Kuang, J.X. *Economic Theory* (2007) 33: 67. <https://doi.org/10.1007/s00199-006-0153-z>
- Andreoni, James, Justin M. Rao, and Hannah Trachtman, Avoiding the Ask: A Field Experiment on Altruism, Empathy, and Charitable Giving, *Journal of Political Economy* 2017 125:3, 625-653

- **The Economics of (dis)honesty**

Standard economic models would predict that if there is an incentive to lie, we should observe lying. However, and perhaps unsurprisingly, it appears that people do not always lie even when they have incentives to do so. We will review the experimental evidence documenting honest communication, discuss the various models that have been proposed to explain (the lack of) dishonesty.

- Gneezy, Uri. 2005. "Deception: The Role of Consequences." *American Economic Review*, 95 (1): 384-394.

- Gneezy, Uri, Agne Kajackaite, and Joel Sobel. 2018. "Lying Aversion and the Size of the Lie." *American Economic Review*, 108 (2): 419-53.
- Fischbacher, U. and Föllmi - Heusi, F. (2013), LIES IN DISGUISE—AN EXPERIMENTAL STUDY ON CHEATING. *Journal of the European Economic Association*, 11: 525-547. doi:10.1111/jeea.12014
- Belot, Michèle & Bhaskar, V. & van de Ven, Jeroen. (2012). Can Observers Predict Trustworthiness?. *Review of Economics and Statistics*. 94. 246-259. 10.1162/REST\_a\_00146.

## Evaluation

Two choices of evaluation:

- (1) **Take-home exam format:** You will be asked to answer a set of questions related to the papers covered in the lectures (will include 5 questions, with the expectation of an answer of half a page for each)
- (2) **Research proposal format:** Develop own idea related to topic of the course (3-4 pages). The proposal should read like a grant application (motivation and context, research question, proposed work and possible policy relevance)