

## BOUNDED RATIONALITY, INDUSTRIAL ORGANISATION & CONTRACT THEORY

The aim of this course is to introduce the students to the literature on Bounded Rationality models applied to Industrial Organisation and Contract Theory frameworks. For each topic of the course we will start from the seminal theoretical contribution in the literature and move towards more recent and more applied research. The course focuses on how this literature can explain seemingly puzzling aspects everyday life situations. The course is divided in five 2-hours lectures (with a break in the middle). Assessment of students will be via a report on a paper of their choice from a subset of the suggested reading list. The course covers four main topics that intertwine often in the literature. Below is a *sample* reading list containing the most important contributions the course covers.

### I) Dynamic Inconsistencies: Naïveté and Sophistication.

- Strotz, R.H. “Myopia and inconsistency in dynamic utility maximization.” *The Review of Economic Studies* (1955), 165-180.
- Della Vigna, S., and U. Malmendier. “Paying not to go to the gym.” *American Economic Review* (2006), 694-719.
- Heidhues, P., and B. Köszegi. “Naivete-based discrimination.” *The Quarterly Journal of Economics* (2017), 1019-1054.

### II) Present Bias, Temptation and Self-control.

- Laibson, D.. “Golden eggs and hyperbolic discounting.” *The Quarterly Journal of Economics* (1997), 443-478.
- Thaler, R.H., and H.M. Shefrin. “An economic theory of self-control.” *Journal of Political Economy* (1981), 392-406.
- Gul, F., and W. Pesendorfer. “Temptation and self-control.” *Econometrica* (2001), 1403-1435.
- Kaur, S., M. Kremer, and S. Mullainathan. “Self-control at work.” *Journal of Political Economy* (2015), 1227-1277.

### III) Optimism and Overconfidence — Applications.

- Sandroni, A., and F. Squintani. “Overconfidence, insurance, and paternalism.” *American Economic Review* (2007), 1994-2004.
- Heidhues, P., and B. Köszegi. “Exploiting naivete about self-control in the credit market.” *American Economic Review* (2010), 2279-2303.
- Grubb, M.D., and M. Osborne. “Biased beliefs, learning, and bill shock.” *American Economic Review* (2014), 234-271.

### IV) Loss Aversion.

- Kahneman, D., and A. Tversky. “Prospect theory: An analysis of decision under risk.” *Econometrica* (1979), 263-291.
- Heidhues, P., and B. Köszegi. “Competition and price variation when consumers are loss averse.” *American Economic Review* (2008), 1245-1268.
- Masatlioglu, Y., and C. Raymond. “A behavioral analysis of stochastic reference dependence.” *American Economic Review* (2016), 2760-2782.