Psychology and Economics
Economics 2030
Spring 2019

David Laibson    Andrei Shleifer

Course Information

Course Overview: This course studies the ways that economic and psychological factors jointly influence behavior. We will analyze choices that economic actors make in the lab and in the field and we will explain these choices with economic models. We will enrich the standard economic model by incorporating psychological mechanisms, including limited rationality and limited self-control. Applications that we study will include salience, inference, strategic behavior, consumption, savings, and persuasion. This course is intended for students interested in research. The course will use the standard mathematical and empirical methods employed in economic research.

Meeting time and location: Wednesdays 3-5:45. Harvard Hall 103.

Instructors:

- David Laibson
  Littauer M–12, dlaibson@harvard.edu, 6-3402
  Office hours: email edepuy@fas.harvard.edu for an appointment

- Andrei Shleifer
  Littauer M-9, ashleifer@harvard.edu, 5-5046
  Office hours: email michael_oneil@fas.harvard.edu for an appointment

- Giorgio Saponaro
  Littauer G24, giorgiosaponaro@g.harvard.edu
  Section: TBD
  Office Hours: TBD

Course web site: https://canvas.harvard.edu/courses/47477 Syllabus, problem sets, problem set solutions, readings, and handouts will be available on the course web site.

Prerequisites: graduate level coursework in statistics, game theory, microeconomic theory, dynamic optimization. Please talk to us if you have doubts about your background.
Collapsed Course Outline:

January 30  Introduction and Methodology (David)
February 6  Prospect Theory (Andrei)
February 13 Salience Theory (Andrei and Nicola Gennaioli)
February 20 Heuristics and Biases / Stereotypes (Andrei and Katie Coffman)
February 27 Errors in Probabilistic Reasoning and Judgment Biases (Daniel J. Benjamin)
March 6  Mental Accounting (Jesse Shapiro)
March 13 Advertising and Persuasion (Andrei and Josh Schwartzstein)
March 20  Spring Break
March 27 Intertemporal Choice Theory (David)
April 3  Modeling and Measuring Attention: From Micro to Macro (Xavier Gabaix)
April 10 Intertemporal Choice Empirics (David)
April 17 Household Finance and Choice Architecture (David) April
24  Behavioral Mechanism Design and Paternalism (David)
May 1  Biosocial Science: Neuroeconomics and Genoeconomics (David)

Grading: Grades will be calculated from two weighted components: problem sets (1/4), and final exam (3/4). Students who have taken 2010a/b and 2010c/d (or are currently taking these course) may also opt into a paper option that replaces the final exam. In this case, the paper deadline is set by you, but it may be no later than September 1. Tell Emily Sall this deadline by March 1.

Problem Sets: We will assign 6 problem sets over the course of the semester.

Policy on Lateness: Late problem sets will receive half credit.

Student collaboration: Students may collaborate on problem sets, but they should acknowledge their collaborators and describe the extent of their collaboration at the top of the relevant assignments. While collaboration is allowed, directly copying someone else's work is not. Problem sets may be discussed, but they should be written up independently. Copying someone else's work can result in a requirement to withdraw from the University.
**Recommended texts:** You should buy the texts that match your specific research interests. Take special note of the two-volume *Handbook of Behavioral Economics* edited by Bernheim, Dellavigna, and Laibson (2018, 2019), which is on sale at the COOP.


Camerer, Loewenstein, and Rabin. *Advances in Behavioral Economics*

Congdon, Kling and Mullainathan, *Policy and Choice*.

Gilovich, Griffin, and Kahneman. *Heuristic and Biases: The Psychology of Intuitive Judgment*


Kahneman, Slovic, and Tversky, *Judgment under Uncertainty: Heuristics and Biases*


Thaler, *Advances in Behavioral Finance*


Thaler and Sunstein, *Nudge*, 2008

Readings: The papers on the following pages are recommended readings that reflect what is discussed in class (or is good background reading for that lecture). You should also come to us if you are looking for additional suggestions on topics that particularly interest you. Starred readings (*) are literature reviews, some with a point of view.

Course Outline:

January 30
Introduction and Methodology (David)


Kahneman, Thinking, Fast and Slow, Farrar, Straus, Giroux 2011.


February 6
Prospect Theory (Andrei)


February 13
Salience Theory (Andrei and Nicola Gennaioli)


February 20
Heuristics and Biases / Stereotypes (Andrei and Katie Coffman)


February 27
Errors in Probabilistic Reasoning and Judgment Biases (Daniel J. Benjamin)


March 6
Mental Accounting (Jesse Shapiro)

Class preparation memo


March 13
Advertising and Persuasion (Andrei and Josh Schwartzstein)

Sendhil Mullainathan, “Thinking through categories,” mimeo.


March 20 - Spring Break
March 27
Intertemporal Choice Theory (David)


April 3
Modelling and Measuring Attention: from micro to macro


*Gabaix, X. “Behavioral inattention”, Handbook of Behavioral Economics (edited by Douglas Bernheim, Stefano DellaVigna and David Laibson), 2019


Taubinsky, Dmitry and Alex Rees-Jones “Attention Variation and Welfare: Theory and Evidence from a Tax Salience Experiment” Forthcoming at the Review of Economic Studies
April 10

Intertemporal Choice Empirics (David)


Beshears, John, James J. Choi, Christopher Harris, David Laibson, Brigitte C. Madrian, and Jung Sakong (2011). “Self Control and Liquidity: How to Design a Commitment Contract.”


Schilbach, Frank (2017). "Alcohol and Self-Control: A Field Experiment in India."
April 17
Household Finance, Choice Architecture and Nudges (David)


Baicker et. al., “Behavioral Hazard in Health Insurance”


Choi, James, David Laibson, and Brigitte Madrian. 2009. "Reducing the Complexity Costs of 401(k) Participation Through Quick Enrollment." Developments in the Economics of Aging, David A. Wise, editor. [Click here for nicely typeset text]


*Thaler and Sunstein, Nudge, 2008.

April 24
Behavioral Mechanism Design and Paternalism (David)


Beshears, John, James J. Choi, Christopher Harris, David Laibson, Brigitte C. Madrian, and Jung Sakong (2011). “Self Control and Liquidity: How to Design a Commitment Contract.”


Farhi, Emmanuel and Xavier Gabaix (2017), "Optimal Taxation with Behavioral Agents", working paper.


May 1
Biosocial Science: Genoeconomics and Neuroeconomics (David)


Chabris, Christopher F., James J. Lee, Daniel J. Benjamin, Jonathan P. Beauchamp, Edward L. Glaeser, Gregoire Borst, Steven Pinker, and David I. Laibson (2013). “Why Is It Hard to Find Genes that are Associated with Social Science Traits?
Theoretical and Empirical Considerations.” *American Journal of Public Health* 103(S1): S152-S166.


Genome-wide association analyses of risk tolerance and risky behaviors in over one million individuals identify hundreds of loci and shared genetic influences. Nature Genetics Forthcoming; PDF


