Economics 8000
Fall, 2022

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The course will meet on Tuesday and Friday (changed from Tuesday and Thursday to avoid conlicts) at 1:45 - 3:15

There is a large body of work termed *Behavioral economics* that is motivated by "anomalies," that is, behavior that seems to conflict what traditional economic theory would predict. One widely cited paper starts with the empirical observation that people sign up for monthly gym contracts that allow one to go a gym as often as one wants for the fixed cost of the contract. Data show that for many people who repeatedly purchase these contracts, they would pay less if they paid the daily fee for the times they went than they pay for the monthly contracts. The question is "Why do they choose what appears to be dominated contract?" DellaVigna and Malmendier, 2006, *AER*, set out an alternative to the standard "rational agent" model in which agents may have a "self control" problem in which they may not be able to carry out their optimal dynamic plan.

DellaVigna, Stefano, and Ulrike Malmendier. "Paying not to go to the gym." American economic Review 96.3 (2006): 694-719.

While many behavioral economics papers provide some insight into the specific anomaly that motivates their paper, a disadvantage is that the result is a plethora of different economic models that are often in conflict with each other. This course will take a different path and analyze a series of papers that start with an anomaly, as DellaVigna and Malmendier did, but try to construct a "standard" model whose equilibria were consistent with the anomalous observations. This course will examine a number of papers of this sort. I will present papers that are mostly by me and students will present papers by others. Besides the presentation requirement students will write a short paper along the lines of papers we talk about.

Below are examples of the kind of papers we will examine. Those marked (P) are representative examples of student presentation papers; those marked (AP) are papers of mine that we will cover, mostly presented by me; those marked

(B) are mostly background: we will discuss them but not present them in detail. In general, the papers are what are sometimes called "middlebrow," meaning that the mathematics is relatively straightforward compared to more abstract theory papers.

Casual empiricism suggests that people seem to care not only about their own income" but in addition, whether their income is higher or lower than that of their friends. Why?

(B) Postlewaite, Andrew. "Social norms and social assets." Annu. Rev. Econ. 3.1 (2011): 239-259.

(AP) Cole, Harold L., George J. Mailath, and Andrew Postlewaite. "Social norms, savings behavior, and growth." Journal of Political Economy 100.6 (1992): 1092-1125.

(AP) Cole, Harold L., George J. Mailath, and Andrew Postlewaite. "Incorporating concern for relative wealth into economic models." Federal Reserve Bank of Minneapolis Quarterly Review 19.3 (1995): 12-21.

About one year ago, a National Football League team, the Green Bay Packers, sold $10 million dollars worth of shares. Why don't the players quit and form their own league, thereby expropriating the shareholders' equity?

(P) Mailath, George J., and Andrew Postlewaite. "Asymmetric information bargaining problems with many agents." The Review of Economic Studies 57.3 (1990): 351-367.

Why don't unemployed workers offer to work for less than employed workers in a recession?

(P) Shapiro, Carl, and Joseph E. Stiglitz. "Equilibrium unemployment as a worker discipline device." The American Economic Review

(P) Azariadis, Costas. "Implicit contracts and underemployment equilibria." Journal of Political Economy 83.6 (1975): 1183-1202.

(AP) Postlewaite, Andrew, Larry Samuelson, and Dan Silverman. "Consumption commitments and employment contracts." The Review of Economic Studies 75.2 (2008): 559-578.

You will sometimes hear that a football coach waits to put a new quarterback into an "easy" game (rather than a "hard" game to build confidence). Can this be accommodated in a standard model?

(AP) Compte, Olivier, and Andrew Postlewaite. "Confidence-enhanced performance." American Economic Review 94.5 (2004): 1536-1557.

(P) Bénabou, Roland, and Jean Tirole. "Self-confidence and personal motivation." The Quarterly Journal of Economics 117.3 (2002): 871-915.

In some societies irrelevant exogenous personal characteristics such as skin color seem to affect how well agents do. How can such characteristics matter?

(P) Fang, Hanming. "Social culture and economic performance." American Economic Review 91.4 (2001): 924-937.

(AP) Mailath, George J., and Andrew Postlewaite. "Social assets." International Economic Review 47.4 (2006): 1057-1091.

It is documented that when people get a "stimulus check" they don't smooth consumption. How can this be accommodated in a standard model?

(B) Gilboa, Itzhak, Andrew Postlewaite, and Larry Samuelson. "Memorable consumption." Journal of Economic Theory 165 (2016): 414-455. 414-455.

(B) Hai, Rong, Dirk Krueger, and Andrew Postlewaite. "On the welfare cost of consumption fluctuations in the presence of memorable goods." Quantitative economics 11.4 (2020): 1177-1214.

There is substantial anecdotal evidence that people often seem to be overly optimistic or overly pessimistic relative to the standard Savage expected utility function representation. How can we model such agents?

(B) Dillenberger, David, Andrew Postlewaite, and Kareen Rozen. "Optimism and pessimism with expected utility." Journal of the European Economic Association 15.5 (2017): 1158-1175.

It has been shown that seeing someone eating something good can make one hungry. How can seeing this change one's preferences?

(P) Samuelson, Larry. "Information-based relative consumption effects." Econometrica 72.1 (2004): 93-118.

Where do preferences come from?

(P) Lizzeri, Alessandro, and Marciano Siniscalchi. "Parental guidance and supervised learning." The Quarterly Journal of Economics 123.3 (2008): 1161-1195.

(B) Postlewaite, Andrew. "Social arrangements and economic behavior." Annales d'Economie et de Statistique (2001): 67-87.

It has been said that when Blood-Donation organizations began paying donors (who previously had donated for free), many people decreased the frequency of donations? Why might this be so?

(P) Bénabou, Roland, and Jean Tirole. "Intrinsic and extrinsic motivation." The review of economic studies 70.3 (2003): 489-520.

(B) The Social Context of Economic Decisions," (with G. Mailath), Journal of the European Economic Association 1 (April-May 2003), 354-362.

(B) Postlewaite, Andrew. "The social basis of interdependent preferences." European economic review 42.3-5 (1998): 779-800.

Besley, Timothy, Stephen Coate, and Glenn Loury. "Rotating savings and credit associations, credit markets and efficiency." The Review of Economic Studies 61.4 (1994): 701-719. October 1994 , pp. 701-19

(P) Morris, Stephen. "Political correctness." Journal of Political Economy 109.2 (2001): 231-265.

Bénabou, Roland, and Jean Tirole. "Intrinsic and extrinsic motivation." The Review of Economic Studies 70.3 (2003): 489-520.

When banks have excess demand, they often ration credit rather than increase interest rates. Why?

(P) Stiglitz, Joseph E., and Andrew Weiss. "Credit rationing in markets with imperfect information." The American economic review 71.3 (1981): 393-410.

We sometimes see ads on television that seem to have no information content, such as a film clip of a large group of people singing on a mountain top. How can this be revenue enhancing?

(P) Milgrom, Paul, and John Roberts. "Price and advertising signals of product quality." Journal of Political Economy 94.4 (1986): 796-821.

There are examples of societies in which a group is discriminated against but ends of doing better on average than the non-discriminated group? How can this happen?

(B) Fang, Hanming, and Andrea Moro. "Theories of statistical discrimination and affirmative action: A survey." Handbook of Social Economics 1 (2011): 133-200.

(P) Fang, Hanming. "Social culture and economic performance." American Economic Review 91.4 (2001): 924-937.

(P) Fang, Hanming, and Peter Norman. "Government-Mandated Discriminatory Policies: Theory and Evidence." International Economic Review 47.2 (2006): 361-389.