The course will meet on Tuesday and Friday (changed from Tuesday and Thursday to avoid conflicts) 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.


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?


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?


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


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?


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


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


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?


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


Where do preferences come from?


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?


(B) Postlewaite, Andrew. "The social basis of interdependent preferences." European economic review 42.3-5 (1998): 779-800.
When banks have excess demand, they often ration credit rather than increase interest rates. Why?


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?


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?

