

# Econ 311: Behavioral and Experimental Economics

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# Course Review

# Judgement, Beliefs and Heuristics

- ▶ People's beliefs often do not follow Bayes' rule
  - ▶ Instead use heuristics like representativeness, availability
- ▶ Many people appear to believe in hot hand and/or gambler's fallacy
- ▶ Projection bias: people have incorrect beliefs about how similar future tastes will be to current tastes

# Bounded Rationality

- ▶ People may not have the ability to do full optimization calculation, instead relying on heuristics
- ▶ Instead use narrow framing to simplify the problem
- ▶ Have different mental accounts of budgets for each frame
- ▶ People may be swayed by how information is presented (or the presence of irrelevant information)

# Risk Preferences

- ▶ Expected utility theory assumes people will follow the axiom of independence
- ▶ The Allais paradox(es) show violations of independence axiom are very intuitive
- ▶ Prospect theory has four features
  - ▶ Reference dependence
  - ▶ Loss aversion
  - ▶ Risk seeking in losses
  - ▶ Non-linear probability weighting
- ▶ Evidence of prospect theory in the lab (mugs) and in the field (cabs)

# Time Preferences

- ▶ Standard theory predicts smooth, exponential discounting between time periods
- ▶ Present-bias theories include quasi-hyperbolic discounting
- ▶ Lots of lab, field evidence for present bias
- ▶ Multiple price lists (later/larger reward vs smaller/sooner reward) can be used to estimate size of present bias
- ▶ Awareness of time inconsistency (sophistication) can lead to demand for commitment devices (lockbox savings devices, for example)

# Social Preferences

- ▶ People may care about payoff of others, not just their own payoffs (dictator game)
- ▶ Reciprocity matters (ultimatum game, trust game)
- ▶ Definition of what is fair depends on timing and norms
- ▶ People may avoid being asked to give, even if they would give if asked
- ▶ People may also use ignorance (moral wiggle room) risk as an excuse not to give
- ▶ People may care what others think of their behavior (conspicuous consumption, prestige motive)

# Games and Markets

- ▶ People may not play Nash equilibrium in games
- ▶ Instead may play level-k strategies
- ▶ People often do not play correct strategies in auctions
- ▶ Lots of lab and observational evidence of bubbles in asset markets



# Misc Topics

- ▶ Lots of experimental evidence of racial discrimination (tasted-based vs statistical)
- ▶ Women may have different preferences for competition than men
- ▶ Classical incentives may backfire (day care centers)
- ▶ Nudges may change behavior
  - ▶ Eg, social information nudges on home energy reports or in recruitment letters
- ▶ The internet has fundamentally changed empirical economics research

Any questions on these topics?

Where To Go From Here

# Courses You Can Take

- ▶ Can't take ECON 211, unfortunately
- ▶ GOVT 369: Political Psychology
- ▶ PSYC220: Cognitive Psychology
- ▶ PSYC225: Cognitive Neuroscience
- ▶ PSYC227: Motivation and Reward
- ▶ PSYC260: Social Psychology

# Research

- ▶ Honors Thesis
- ▶ Summer QAC program
- ▶ Research assistantship (summer or semester):
  - ▶ Naecker Lab
  - ▶ Digital Experiments Lab
- ▶ Independent study

# Online Resources

- ▶ Lots of economists on Twitter and blogs
- ▶ Feel free to use #WesEc311 hashtag

# After Wesleyan

- ▶ Behavioral/experimental jobs
  - ▶ IPA
  - ▶ JPLA
  - ▶ ideas42
  - ▶ Busara
  - ▶ RA for faculty at top schools
- ▶ Graduate school: master's or PhD

## Final Reminders



# Final presentation

- ▶ 5-10 minutes long
- ▶ Topics to cover:
  - ▶ Motivation/introduction to the topic
  - ▶ Previous literature in topic
  - ▶ Details of your analysis/design
  - ▶ Hypothesis/expected results
  - ▶ Importance/policy relevance of possible results
- ▶ Please upload to TurnItIn before class
- ▶ Highly recommended:
  - ▶ Discuss with me if you haven't already
  - ▶ Give one or more practice talks

# Final paper

- ▶ 5-10 pages long, double-spaced
- ▶ Topics to cover: same as presentation
- ▶ Due 5:00 pm on December 16th
- ▶ Only accepted via upload

# Final exam

- ▶ Friday, December 15th, 9:00 am-12:00 pm
- ▶ Room TBA
- ▶ Format: free response and multiple choice questions
- ▶ Material covered
  - ▶ Concepts and papers covered in lecture notes
  - ▶ Discussion papers presented by all of you
  - ▶ Material on problem sets
- ▶ Last year's exam posted on Moodle