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### ECNS 451.01: Behavioral and Experimental Economics

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# Economics 451: Behavioral and Experimental Economics

University of Montana

Department of Economics

Spring 2016

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<b>Instructor:</b>	<b>Matt Taylor</b>	Email:	matthew.taylor@mso.umt.edu
Office:	Liberal Arts 406	Office Hours:	T 9:30-11:00 & W 9:30-10:30
CRN:	34610	Lecture:	M, W & F 13:10 - 14:00
		<b>Lecture Location:</b>	<b>LA 308, Mondays in LA 206</b>

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**Course Description:** The purpose of this course is to provide you with an overview of experimental economics and behavioral economics. We will discuss the methods and the tools frequently used in economics experiments, as well as some of the key concepts, results, and contributions of experimental economics, behavioral economics, and neuroeconomics. We will explore the experimental design of previous experiments, and you will learn how to critically assess other experiments as well as design your own.

**Prerequisites:** ECNS 201S: Principles of Microeconomics.

**Textbooks:**

- Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness*

**Course Website:** Moodle

**Grading Policy:** Your final course grade will be determined as follows:

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30%	Three Article Quasi-Referee Reports
30%	Research Proposal: List of References (minimum of 8) & Research Question – 5 % Literature Review – 10 % Proposal – 15 %
5%	Completion of Human Subjects Protection Course
10%	Participation
15%	Midterm Exam (Friday, 03/18/16)
10%	Final Exam (Tuesday, 05/10/16 at 3:20 pm)

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### **Due Dates**

- Referee Reports: 1st review due by 02/19/2016; 2nd due by 03/18/2016; 3rd due by 04/22/2016
- List of References and Research Question – 03/02/2016
- Proposal Literature Review – 03/30/2016
- Research Proposal – 04/27/2016
- Completion of Human Subjects Protection Course – 04/01/2016

**Graduate-level credit:** Students taking this course for graduate-level credit will be required to present their research proposal in class during the last two weeks of the semester. The presentation will be worth 10% of the grade. The midterm weight will be adjusted downward to 5% for these students.

**Exams: Do not take this class if you know that you cannot make one of the scheduled exams.** In the case of a missed midterm due to emergency situations, the student may be allowed to complete a make-up exam provided I am notified as soon as possible and verification of the emergency is provided to me by phone or email, no later than 24 hours after an exam.

**Students with Disabilities:** If you are a student with a disability who will require reasonable program modifications in this course, please meet with Disability Services for Students in Lommasson 154 for assistance in developing a plan to address program modifications. If you are already working with Disability Services arrange to meet with me during my office

hours to discuss reasonable modifications that may be necessary. For more information, visit the Disability Services website at <http://www.umt.edu/disability>.

**Drops and Credit/No-Credit:** The University has deadlines and policies applicable to dropping the course and changing your grading option. Request to make changes must be in accordance with University policy and deadlines. **In accordance with University policy, students taking the course credit/no credit must earn a D- or better to receive credit.**

**Academic Integrity:** All students must practice academic honesty. Academic misconduct is subject to an academic penalty by the course instructor and/or a disciplinary sanction by the University. All students need to be familiar with the Student Conduct Code. The Code is available for review online at [http://life.umt.edu/vpsa/student\\_conduct.php](http://life.umt.edu/vpsa/student_conduct.php).

**Outline of Course Material:** The following is a tentative schedule of lectures and associated readings. **Additional readings (and potentially topics) will be assigned throughout the course. The schedule should be viewed as tentative and may be subject to change throughout the term.**

### **Part I: Introduction**

- Why do Experiments?
  - **Falk and Heckman**, “Lab Experiments Are a Major Source of Knowledge in the Social Sciences,” *Science*, 2009
  - **Levitt & List**, “What Do Laboratory Experiments Measuring Social Preferences Reveal about the Real World?,” *Journal of Economic Perspectives*, 2007
  - **Smith**, “Economics in the Laboratory”
- Institutional Review Board for the Protection of Human Subjects in Research
- Tools
  - Vecon Lab @ <http://veconlab.econ.virginia.edu>
- Market Experiments
  - Pit Market

- Double-Auction
- Experiment: Vecon Lab, Double Auction

## Part II: Coordination, Bargaining, and Trust

- Competition, Coordination, and Guessing (The Beauty Contest)
  - **Holt and Roth**, “The Nash Equilibrium: A Perspective”, *Proceedings of the National Academy of Science of the U.S.*, 2004
  - **Van Huyck et al.**, “Tacit Coordination Games, Strategic Uncertainty, and Coordination Failure,” *American Economic Review*, 1989
  - **Goeree & Holt**, “An Experimental Study of Costly Coordination,” *Games and Economic Behavior*, 2005.
  - **Nagel**, “Unraveling in Guessing Games: An Experimental Study,” *The American Economic Review*, 1995
  - Experiment: Vecon Lab, Prisoner’s Dilemma, Coordination, and Beauty Contest
- The Ultimatum Game
  - **Camerer & Thaler**, “Anomalies: Dictators, Ultimatums, and Manners,” *Journal of Economic Perspectives*, 1995.
  - Experiment: Vecon Lab, Ultimatum Game
- The Dictator Game
- Trust, Reciprocity, and Principal-Agent Games
  - **Berg, Dickhaut, McCabe**, “Trust, Reciprocity, and Social History,” *Games and Economic Behavior*, 1995
  - **Fehr, Kirchsteiger, & Riedl**, “Does Fairness Prevent Market Clearing? An Experimental Investigation,” *The Quarterly Journal of Economics*, 1993
  - **Charness, Frechette, & Kagel**, “How Robust is Laboratory Gift Exchange?,” *Experimental Economics*, 2004
  - Experiment: Vecon Lab, Gift Exchange, Trust Game, Principal-Agent Game
- Randomized Strategies
  - Experiment: Vecon Lab, Matching Pennies and Battle of the Sexes

### Part III: Choice under Uncertainty—Expected Utility Theory and Prospect Theory

- **Holt and Laury**, “Risk Aversion and Incentive Effects,” *The American Economic Review*, 2002
- **Andreoni & Sprenger**, “Time Preferences are Not Risk Preferences,” *The American Economic Review*, 2012
- **Barberis**, “Thirty Years of Prospect Theory in Economics: A Review and Assessment,” *Journal of Economic Perspectives*, 2013
- **Kahneman & Tversky**, “Prospect Theory: An Analysis of Decision Under Risk,” *Econometrica*, 1979
- **Rabin & Thaler**, “Anomalies: Risk Aversion,” *The Journal of Economic Perspectives*, 2001
- **Harbaugh, Krause, & Vesterlund**, “The Fourfold Pattern of Risk Attitudes in Choice and Pricing Task,” *The Economic Journal*, 2009
- Experiment: Vecon Lab, Lottery Games

### Part IV: Behavioral Economics

- Humans v. Econs
  - *Nudge*, p. 1-39
- What is Behavioral Economics?
  - **Camerer and Loewenstein**, *Behavioral Economics: Past, Present and Future*, 2002, p. 1-36.
  - **Chetty**, “Behavioral Economics and Public Policy,” *AER*, 2015
  - **Benartzi & Thaler**, “Behavioral Economics and the Retirement Savings Crisis,” *Science*, 2013
- Preferences Revealed, Constructed, Discovered, or Learned?
  - **Ariely, Loewenstein, and Prelec**, “Coherent Arbitrariness,” *Quarterly Journal of Economics*, 2003
  - **Ariely, Loewenstein, Prelec**, “Tom Sawyer and the Construction of Value,” *Journal of Economic Behavior and Organization*, 2006.
- Heuristics and Biases

- **Tversky & Kahneman**, “Judgment under Uncertainty: Heuristics and Biases,” *Science*, 1974
- The Affect of Emotions on Economic Decisions
  - **Loewenstein, Hsee, Weber, & Welch**, “Risk as Feeling,” *Psychological Bulletin*, 2001.
  - **Lerner, Small, & Loewenstein**, “Heart Strings and Purse Strings: Carryover Effects of Emotions on Economic Decisions,” *Psychological Science*, 2004.
  - **Gambetti & Giusberti**, “The Effect of Anger and Anxiety Traits on Investment Decision,” *Journal of Economic Psychology*, 2012.
- The Endowment Effect
  - **Kahneman, Knetsch, & Thaler**, “Experimental Tests of the Endowment Effect and the Coase Theorem,” *The Journal of Political Economy*, 1990
- Dynamic Inconsistency and Commitment Mechanisms
  - **Thaler & Sunstein**, *Nudge*, p. 40-52
  - **Laibson**, “Golden Eggs and Hyperbolic Discounting,” *QJE*, 2001.
  - **Ariely & Wertenbroch**, “Procrastination, Deadlines, and Performance,” *Psychological Science*, 2002
- The Hot-Hand and Gambler’s Fallacies
  - **Tversky and Gilovich**, “The Cold Facts about the ‘Hot Hand’ in Basketball,” *Chance*, 1989
  - **Gilovich, Vallone, and Tversky**, “The Hot Hand in Basketball,” *Cognitive Psychology*, 1985
  - **Avugos et al.**, “The ‘Hot Hand’ Reconsidered: A Meta-Analytic Approach,” *Psychology of Sports and Exercise*, 2013
  - **Guryan and Kearney**, “Gambling at Lucky Stores,” *The American Economic Review*, 2008

## Part V: Neuroeconomics

- **Fehr & Rangel**, “Neuroeconomic Foundations of Economic Choice—Recent Advances,” *Journal of Economic Perspectives*, 2011

- **Camerer, Loewenstein, & Prelec**, “How Neuroscience Can Inform Economics,” *Journal of Economic Literature*, 2005
- **Koenigs & Tranel**, “Irrational Economic Decision-Making After Ventromedial Prefrontal Damage: Evidence from the Ultimatum Game,” *Journal of Neuroscience*, 2007.
- **Kuhnen & Knutson**, “The Neural Basis of Financial Risk Taking,” *Neuron*, 2005.
- **Sanfrey, Rilling, Aronson, Nystrom & Cohen**, “The Neural Basis of Economic Decision-Making in the Ultimatum Game,” *Science*, 2003.
- **Tom, Sabrina M., Craig R. Fox, Christopher Trepel, and Russell A. Poldrack**, The Neural Basis of Loss Aversion in Decision-Making under Risk, *Science*, January 2007, 315 (5811), 515518.

#### **Part VI: Field Experiments**

- **Harrison and List**, “Field Experiments”, *Journal of Economic Literature*, 2004, p. 1009-1016
- **List**, “Do Explicit Warnings Eliminate the Hypothetical Bias in Elicitation Procedures? Evidence from Field Auctions for Sportscards,” *The American Economic Review*, 2001

#### **Students who successfully complete this course will:**

1. Understand experimental design
2. Understand why economists use economics experiments
3. Be aware of Institutional Review Board requirements for conducting experiments using human subjects
4. Be familiar with some of the common tools and tasks that experimental economists use to conduct experiments, such as, the dictator game, the ultimatum game, the beauty contests, and instruments to measure risk and competitive preferences
5. Be familiar with some important empirical regularities found in economics experiments, for example: risk aversion, ambiguity aversion, loss aversion, and unstable preferences.
6. Be able to effectively critique an economics experiment