

## Master Course (Spring 2010)

### Behavioral Economics and Political Economics



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**Prof. Dr. Alois Stutzer**

Professor of Public Choice & Public Economics at the University of Basel



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**Prof. Dr. Felix Oberholzer-Gee**

Andreas Andresen Professor of Business Administration in the Strategy Unit at Harvard Business School

In this course, four leading economists with close connection to Switzerland deliver insights into selected topics of their ongoing research in the intersecting fields of behavioral economics and political economics. The course consists of an introductory session and four lecture blocks. In three blocks, the lecturers present their research, and students give formal comments on the papers presented. In one block the students are introduced to real Harvard style case study discussions. In all blocks, the students will actively participate in the academic discourse.

**Introductory session: Tuesday, March 2, 2010**

13.15-15.00, PER 21 A140

#### I. Purpose of the course

This course provides the students with an excellent opportunity to become acquainted with up to date research of these four leading economists working at the intersection of behavioral economics and political economics. The course covers issues like fairness in economic transactions, the role of sanctioning unfair behavior in the private provision of public goods, conditions for voluntary cooperation, cultural differences, social influences on voluntary cooperation, the economic determinants of individual happiness, the impact of political institutions on individual happiness, the interaction of extrinsic and intrinsic motivations, the effects of non-monetary incentives (awards and orders) on individual behavior and the use of these incentive mechanisms, the systematic difference between the adaptation of individuals to changes in monetary income and benefits from social relations, and individual behavior in situations where ones live is endangered (e.g. during the sinking of the Titanic). Beside an overview of the

widespread field of behavioral and political economics and its recent developments, the students also become familiar with state of the art research methods.

Great importance is attached to active participation of students in plenary discussions.

The students will have the opportunity to get personally in touch with these four highly reputed scientists: they can experience their enthusiasm for economics and become familiar with their research strategies.

## II. Outline

### *Introduction (Tuesday, March 2, 2010)*

- Organization of the course
- Short presentation of the topics
- Assignment of formal comments to the lecturers' papers (course material available on <http://www.unifr.ch/finwiss/de/courses/overview/behavioral>)
- Exam and grading

### *Blocks (FO: Th 15.4., 17.15-19.00/Fr 16.4.; SG 22.4.; BSF Th 29.4.; AS Fr 30.4.)*

- Lecturers present three or four research topics.
- Students present their prepared comments (about 10 minutes).
- Intensive discussion in plenum.

## III. Credit points, students' task, and grading

This course is assigned with 4,5 ECTS. It is expected that students skim through the indicated literature before the sessions. Grading is based on a written exam and on the active participation in class. Further information will be given at the introductory lecture on March 2.

## V. Literature

Croson, R., Gächter, S. (2010). The science of experimental economics. *Journal of Economic Behavior & Organization* 73, 122-131.

Fischbacher, U., Gächter, S. (2010). Social preferences, beliefs, and the dynamics of free riding in public good experiments. *American Economic Review* 100, March.

Download: <http://www.nottingham.ac.uk/economics/cedex/papers/2009-04.pdf>

Frey, Bruno S. and Alois Stutzer (2002). What Can Economists Learn from Happiness Research? *Journal of Economic Literature* 40(2): 402-435.

Frey, Bruno S. and Alois Stutzer (2010). Happiness and Public Choice. *Public Choice*,

forthcoming.

Frey, Bruno S., Simon Luechinger and Alois Stutzer (2009). The Life Satisfaction Approach to the Value of Public Goods: The Case of Terrorism. *Public Choice* 138(3-4): 317-345.

Frey, Bruno S., Simon Luechinger and Alois Stutzer (2010). The Life Satisfaction Approach to Environmental Valuation. Forthcoming in *Annual Review of Resource Economics*.

Gächter, S., Herrmann, B., 2009. Reciprocity, culture, and human cooperation: Previous insights and a new cross-cultural experiment. *Philosophical Transactions of the Royal Society B – Biological Sciences* 364, 791-806.

Gächter, S., Kessler, E., Königstein, M., 2010. Performance incentives and the dynamics of voluntary cooperation. mimeo, University of Nottingham.

Download: will be supplied later

Gächter, S., Nosenzo, D., Sefton, M., 2008. The impact of social comparisons on reciprocity. *IZA Discussion Paper No. 3639*, Institute for the Future of Labor, Bonn.

Download: <http://ftp.iza.org/dp3639.pdf>

Herrmann, B., Thöni, C., Gächter, S., 2008. Antisocial punishment across societies. *Science* 319, 1362-1367.

Paper and supplementary materials can be downloaded from here: <http://www.nottingham.ac.uk/~lezsg1/science.htm>

Luechinger, Simon, Stephan Meier and Alois Stutzer (2010). Why Does Unemployment Hurt the Employed? Evidence from the Life Satisfaction Gap between the Public and the Private Sector. Forthcoming in *Journal of Human Resources*.

Stutzer, Alois (2004). The Role of Income Aspirations in Individual Happiness. *Journal of Economic Behavior and Organization* 54(1): 89-109.

Stutzer, Alois and Bruno S. Frey (2007). What Happiness Research Can Tell Us About Self-Control Problems and Utility Misprediction. In: Bruno S. Frey und Alois Stutzer (Ed.). *Economics and Psychology. A Promising New Cross-Disciplinary Field*. Cambridge: MIT Press: 169-195.

Stutzer, Alois and Rafael Lalive (2004). The Role of Social Work Norms in Job Searching and Subjective Well-Being. *Journal of the European Economic Association* 2(4): 696 – 719.

## VI. Subject schedule

		<b>Lecturer</b>	<b>Topic</b>
2.3.10	13.15 – 15.15 PER 21 A140	Reiner Eichenberger	Introduction
16.4.10	9.00 – 17.30 PER 21 C230	Felix Oberholzer-Gee	<ol style="list-style-type: none"><li>1. Copyright: Case: Apple Inc., 2008<ul style="list-style-type: none"><li>- Why was Apple one of the most profitable computer companies in the world in the late 1980s and early 1990s?</li><li>- Why is Apple's iPod so successful?</li></ul></li><li>2. The Globalization of Chinese Business: Case: Haier's U.S. Refrigerator Strategy<ul style="list-style-type: none"><li>- How did Haier succeed in small box business where no other producer US or foreign-had before?</li></ul></li><li>3. Global Warming: Case: UBS and Climate Change—Warming Up to Global Action?<ul style="list-style-type: none"><li>- If UBS wants to reduce its carbon footprint, what is the best way to do this?</li></ul></li></ol>
22.4.10	9.00 – 17.30 PER 21 C230	Simon Gächter	<ol style="list-style-type: none"><li>1. Understanding voluntary cooperation</li><li>2. Cultural differences</li><li>3. Performance incentives and voluntary cooperation</li><li>4. Social influences on voluntary cooperation</li></ol>
29.4.10	9.00 – 17.30 PER 21 F130	Bruno Frey	<ol style="list-style-type: none"><li>1. An economic analysis of awards</li><li>2. An economic perspective on world heritage sites</li><li>3. Behavior in extreme situations: the sinking of the Titanic</li></ol>
30.4.10	9.00 – 17.30 PER 21 C230	Alois Stutzer	<ol style="list-style-type: none"><li>1. Introduction<ul style="list-style-type: none"><li>- Measuring individual welfare</li></ul></li><li>2. Income and subjective wellbeing<ul style="list-style-type: none"><li>- The role of aspiration levels</li></ul></li><li>3. Unemployment and unhappiness<ul style="list-style-type: none"><li>- Economic uncertainty</li></ul></li></ol>

#### 4. Life satisfaction approach

- A new approach for assessing public goods

#### 5. Perspectives

- Adaption, errors in utility prediction and self control issues
  - Consequences for policy advices
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