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**Fall 2020****Dates: Wednesdays, 8.15 – 12.00****Classroom: F207****Credits: 4.5 ECTS****1. Content**

This seminar integrates recent contributions in behavioral economics with standard public economic theory. Students learn about behavioral economics (aka “Economics and Psychology”) and its applications to the public sector. We discuss and learn to understand phenomena that deviate from the standard microeconomic model.

The course will introduce some of the main concepts of behavioral economics and discuss major public policy applications. For example, students will learn about behavioral anomalies and biases, Kahneman and Tversky’s prospect theory, discuss reasons and consequences of fairness norms and pro-social behavior, ask if public policy should correct individual behavioral biases using Thaler and Sunstein’s nudges, or if the “salience” of some issue affects individual and/or collective decisions.

The teaching language is English. A natural companion to this seminar is the course “Behavioral Economics” by Dr. Jana Freundt. Although, this course is not a prerequisite, having taken it in the past or following it in parallel is an advantage.

**2. Expectations and “how to...”**

Each student or group of students will write an essay (max. 15 pages) on one of the topics, give a presentation (approx. 45 minutes) and lead the discussion on that topic in class, and discuss (5 minutes) another colleague’s/group’s essay. In the presentations and the paper students should discuss the main idea, the theoretical arguments and insights, and present the available empirical evidence. Paper and presentation can be complementary.

Students are free to decide on the “story-line” in the context of the chosen topic. We provide the basic literature and students are required to find and integrate further literature according to their chosen story-line. It is important however, that the basic mechanisms, theories, and evidence are presented in a coherent way. This applies to the essay as well as the presentation. Students are encouraged to go beyond the basics of the essay in their presentation.

The role of the discussant is to provide feedback on the content of an essay. The discussion is a short, constructive evaluation/critique of the work by a fellow student. It might add a different perspective or thoughts, ask additional questions, etc.

### 3. Program

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Date	Subject	Presenter	Discussant
16.09.	Introduction and assignment of topics	Schelker	--
23.09.	Pro-social behavior: in the lab - in the field	Schelker	--
30.09	<i>Preparation</i>	--	--
07.10.	<i>Preparation</i>	--	--
14.10.	<i>Preparation</i>	--	--
21.10.	<i>Preparation</i>	--	--
28.10.	Cooperation	tba	tba
04.11.	Costs of incentives	tba	tba
11.11.	Intertemporal preferences	tba	tba
18.11.	Pension savings	tba	tba
25.11.	Health behaviors	tba	tba
02.12.	Poverty	tba	tba
09.12	Taxation	tba	tba
16.12.	Defaults, nudges, soft paternalism	tba	tba

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### 4. Teaching assistance

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## 5. Background reading

Congdon, William J., Jeffrey R. Kling and Sendhil Mullainathan (2011). Policy and Choice. Public finance through the lens of behavioral economics. Brookings Institution Press, Washington D.C. (ebook download: <http://www.brookings.edu/research/books/2011/policyandchoice/>)

Hindriks, Jean and Gareth D. Myles (2006). *Intermediate public economics*. Cambridge: MIT Press.

Thaler, Richard H. and Cass R. Sunstein (2008). *Nudge*. Improving decisions about health, wealth and happiness. Yale University Press, New Haven.

Tresch, Richard W. (2008). *Public Sector Economics*. Palgrave MacMillan, New York.

## 6. Topics and Literature

### **a) Altruism, fairness, reciprocity: in the lab**

Camerer, Colin and Richard Thaler (1995). Anomalies. Ultimatums, Dictators and Manners. *Journal of Economic Perspectives* 9 (2), 209-219.

Falk, Armin, Ernst Fehr and Urs Fischbacher (2008). Testing theories of fairness—Intentions matter. *Games and Economic Behavior* 62, 287-303.

Fehr, Ernst and Klaus Schmidt (1999). A theory of fairness, competition, and cooperation. *Quarterly Journal of Economics* 114 (3), 817-868.

Fehr, Ernst and Klaus Schmidt (2006). The economics of fairness, reciprocity and altruism – experimental evidence and new theories. *Handbook of the Economics of Giving, Altruism and Reciprocity* 1, 615-691.

Höchtel, Wolfgang, Rupert Sausgruber and Jean-Robert Tyran (2012). Inequality aversion and voting on redistribution. *European Economic Review* 56, 1406-1421.

### **b) Pro-social behavior: in the field**

Andreoni, James and A. Abigail Payne (2013). Charitable giving. *Handbook of Public Economics* 5, 1-50.

Ariely, Dan, Anat Bracha and Stephan Meier (2009). Doing Good or Doing Well? Image Motivation and Monetary Incentives in Behaving Prosocially. *American Economic Review* 99 (1), 544-555.

Frey, Bruno S. and Stephan Meier (2004). Social Comparisons and Pro-Social Behavior: Testing "Conditional Cooperation" in a Field Experiment. *American Economic Review* 94 (5), 1717-1722.

Karlan, Dean and John List (2013). Does Price Matter in Charitable Giving? Evidence from a Large-Scale Natural Field Experiment. *American Economic Review* 97 (5), 1774-1793.

Meier, Stephan (2007). A Survey of Economic Theories and Field Evidence on Pro-Social Behavior. Frey, Bruno S. and Alois Stutzer (Eds.): *Economics and Psychology. A Promising New Cross-Disciplinary Field*. CESifo Seminar Series, MIT Press, Cambridge, MA, 51-87.

### **c) Cooperation**

Dawes, Robyn M. and Richard Thaler (1988). Anomalies. Cooperation. *Journal of Economic Perspectives* 2 (3), 187-197.

Fehr, Ernst and Urs Fischbacher (2004). Social norms and human cooperation. *Trends in Cognitive Sciences* 8 (4), 185-190.

Gächter, Simon, Benedikt Herrmann and Christian Thöni (2010). Culture and cooperation. *Philosophical Transactions of the Royal Society B* 365, 2651-2661.

Herrmann, Benedikt, Christian Thöni and Simon Gächter (2008). Antisocial Punishment Across Societies. *Science* 319, 1362-1367.

Markussen, Thomas, Ernesto Reuben and Jean-Robert Tyran (2013). Competition, cooperation and collective choice. *Economic Journal* 127, F163-F195.

### **d) Costs of incentives**

Benabou, Roland and Jean Tirole (2003). Intrinsic and Extrinsic Motivation. *Review of Economic Studies* 70 (3), 489-520.

Falk, Armin and Michael Kosfeld (2006). The Hidden Cost of Control. *American Economic Review* 96 (5), 1611-1630.

Frey, Bruno and Felix Oberholzer-Gee (1997). The Cost of Price Incentives: An Empirical Analysis of Motivation Crowding-Out. *American Economic Review* 87 (4), 746-755.

Fuster, Andreas and Stephan Meier (2010). Another Hidden Cost of Incentives: The Detrimental Effect on Norm Enforcement. *Management Science* 56 (1), 57-70.

Gneezy, Uri, Stephan Meier and Pedro Rey-Biel (2011). When and Why Incentives (Don't) Work to Modify behavior. *Journal of Economic Perspectives* 25 (4), 191-210.

### **e) Inter-temporal preferences**

Akerlof, George (1991). Procrastination and Obedience. *American Economic Review* 81 (2), 1-19.

Ariely, Dan and Klaus Wertenbroch (2002). Procrastination, Deadlines, and Performance: Self-Control by Precommitment. *Psychological Science* 13 (2), 219-224.

Laibson, David (1997). Golden eggs and hyperbolic discounting. *Quarterly Journal of Economics* 112 (2), 443-478.

Meier, Stephan and Charles D. Sprenger (2011). Time Discounting Predicts Creditworthiness. *Psychological Science* 23 (1), 56-58.

Volk, Stefan, Christian Thöni and Winfried Ruigrok (2012). Temporal stability and psychological foundations of cooperation preferences. *Journal of Economic Behavior and Organization* 81, 664-676.

### **f) (Pension) savings**

Carroll, Gabriel D., James J. Choi, David Laibson, Brigitte C. Madrian and Andrew Metrick (2009). Optimal Defaults and Active Decisions. *Quarterly Journal of Economics* 124 (4), 1639-1674.

Madrien, Brigitte C. and Dennis F. Shea (2001). The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior. *Quarterly Journal of Economics* 116 (4), 1149-1187.

Thaler, Richard H. and Sholom Benartzi (2004). Save More Tomorrow: Using Behavioral Economics to increase Employee Saving. *Journal of Political Economy* 112 (1), 164-187.

Tufano, Peter (2011). Just Keep my Money! Supporting Tax-Time Savings with US Savings Bonds. *American Economic Journal: Economic Policy* 3 (4), 172-200.

### **g) Health behaviors**

Gruber, Jonathan and Botond Köszegi (2001). Is addiction “rational”? Theory and evidence. *Quarterly Journal of Economics* 116 (4), 1261–1303.

Loewenstein George, David A. Asch, Joelle Y. Friedman, Lori A. Melichar and Kevin G. Volpp (2012). Can behavioural economics make us healthier? *British Medical Journal* 344, e3482.

O'Donoghue, Ted and Matthew Rabin (2000). The economics of immediate gratification. *Journal of Behavioral Decision Making* 13 (2), 233–250.

Volpp, Kevin G. et al. (2009). A randomized controlled trial of financial incentives for smoking cessation. *New England Journal of Medicine* 360, 699-709.

Volpp, Kevin G., Leslie K. John, Andrea B. Troxel, Laurie Norton, Jennifer Fassbender and George Loewenstein (2008). Financial Incentive–Based Approaches for Weight Loss: A Randomized Trial. *Journal of the American Medical Association* 300 (22), 2631-2637.

### **h) Poverty**

Mullainathan, Sendhil and Abhijit Banerjee (2010). The shape of temptation: Implications for the economic lives of the poor. *NBER Working Paper* No. 15973.

Beaulier, Scott and Bryan Caplan (2007). Behavioral economics and perverse effects of the welfare state. *Kyklos* 60 (4), 485-507.

Bertrand, Marianne, Sendhil Mullainathan and Eldar Shafir (2004). A behavioral-economics view of poverty. *American Economic Review* 94 (2), 419-423.

Haushofer, Johannes and Ernst Fehr (2014). On the psychology of poverty. *Science* 344 (6186), 862-867.

Schilbach, Frank, Heather Schofield and Sendil Mullainathan (2016). The Psychological Lives of the Poor. *American Economic Review* 106 (5), 435-440.

### **i) Taxation**

Chetty, Raj, Adam Looney and Kory Kroft (2007). Salience and taxation: Theory and evidence. *American Economic Review* 99 (4), 1145–1177.

Finkelstein, Amy (2009). E-ZTAX: Tax Salience and Tax Rates. *Quarterly Journal of Economics* 124 (3), 969-1010.

Gruber, Jonathan and Botond Köszegi (2004). Tax incidence when individuals are time-inconsistent: the case of cigarette excise taxes. *Journal of Public Economics* 88 (9), 1959-1987.

O'Donoghue, Ted and Mathew Rabin (2006). Optimal sin taxes. *Journal of Public Economics* 90 (10), 1825-1849.

Slemrod, Joel (2007). Cheating ourselves: The economics of tax evasion. *Journal of Economic Perspectives* 21 (1), 25-48.

**j) Defaults, nudges and soft paternalism**

Camerer, Colin, Samuel Issacharoff, George Loewenstein, Ted O'Donoghue and Matthew Rabin (2003). Regulation for Conservatives: Behavioral Economics and the Case for "Asymmetric Paternalism". *University of Pennsylvania Law Review* 151, 1211-1254.

Choi, James J., David Laibson, Brigitte C. Madrian and Andrew Metrick (2003). Optimal Defaults. *American Economic Review* 93 (2), 180-185.

Glaeser, Edward L. (2006). "Paternalism and Psychology," *University of Chicago Law Review* 73 (1) (Winter 2006), 133-156

Loewenstein, George, Troyen Brennan and Kevin G. Volpp (2007). Asymmetric Paternalism to Improve Health Behaviors. *Journal of the American Medical Association* 298 (20), 2415-2417.

O'Donoghue, Ted and Rabin, Matthew (2003). Studying Optimal Paternalism, illustrated by a model of sin taxes, *American Economic Review* 93(2), 186-191.

Thaler, Richard H. and Cass R. Sunstein (2003). Libertarian Paternalism. *American Economic Review* 93 (2), 175-179.