

School of Economics and Finance

**ECON418 ST: THE ECONOMICS OF BEHAVIOUR AND
BEHAVIOURAL ECONOMICS**

Trimester One 2012

COURSE OUTLINE

Names and Contact Details

Professor Morris Altman	Office	RH305
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Trimester Dates

Teaching Period: Monday 5 March – Friday 8 June
Study Period: Monday 11 June – Thursday 14 June
Examination Period: Friday 15 June – Wednesday 4 July (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 16 March 2012.
2. The standard last date for withdrawal from this course is Friday 18 May. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an 'Application for Associate Dean's Permission to Withdraw Late' including supporting documentation.

The application form is available from either of the Faculty's Student Customer Service Desks.

Class Times and Room Numbers

Lecture time Wednesday 2:40 – 4.30pm RWW125

Course Content

This course details the economics of behaviour and the importance of behavioural assumptions (and assumptions in general) for the analytical predictions of economic theory. This brings us to a discussion of the pioneering work of Milton Friedman on Methodology to an analysis of the utility maximizing framework of George Stigler and Gary Becker as this pertains to an understanding of economic theory and an understanding of the analytics of choice. This provides a lead to the alternative modelling frameworks developed in the works of Herbert Simon, Daniel Kahneman and Amos Tversky, Gerd Gigerenzer, Harvey Leibenstein, George Akerlof, Vernon Smith, and Oliver Williamson and its implication for economic analysis. Some of this discussion

relates to the issue of rationality in the decision making process and its effect on model building and public policy. One important component of this course relates to importance of behavioural economics to the theory of the firm. This leads to a focus upon efficiency wage and x-efficiency theory and how this relates to an understanding of firm behaviour, economic predictions, and public policy. Also discussed in this course are issues related to behavioural finance, behavioural macro, culture and development, and the economics of ethics. We will also discuss aspects of experimental economics, which is an important area within the domain of behavioural economics.

The economics of behaviour has significant implications for public and private economic policy and decision making which will be discussed in some detail in this course.

Course Learning Objectives

By the end of this course the student should be able to:

- 1 Achieve a basic understand of behavioural economics
- 2 Gain an understanding of experimental economics
- 3 Understanding the implications of behavioural economics for public policy
- 4 Gain an understanding of economics research
- 5 Realise the importance of presenting and articulating ones ideas in a public forum

Course Delivery

The class will consist of a research paper, research report, class presentation, mid-term test (55%) and a final examination (45% of the total grade). All research papers and reports must be typed and available in electronic format.

Expected Workload

The ECON418 is a 15-point course and on the basis of Victoria University of Wellington having designated one point = 10 hours work, expected work load would total 150 hours. This would involve attending the 2 hour lecture for 12 lectures per week for 12 teaching weeks, plus readings, completing assignment work with the preparation of research report and class presentation.

Group Work

No Group work.

Readings (required and available purchase at the university bookstore)

Altman, Morris (ed.) (2006). *Handbook of Contemporary Behavioral Economics: Foundations and Developments*. Armonk, New York: M.E. Sharpe Publishers.

Other Readings (available purchase at the university bookstore)

Becker, Gary S. (1998). *Accounting for Tastes*. Cambridge, Mass: Harvard University Press.

Gigerenzer, Gerd (2007). *Gut Feelings: The Intelligence of the Unconscious*. New York: Viking.

On-line Reference

Good reference on-line dictionary: <http://www.sfb504.uni-mannheim.de/glossary/>

Books on 3-day loan in the commerce library:

Becker, Gary S. (1998). *Accounting for Tastes*. Cambridge, Mass: Harvard University Press.

Diamond, Peter and Hannu Vartiainen, eds. (2007). Behavioral Economics and Its Applications. Princeton, NJ: Princeton University Press.

Gigerenzer, Gerd (2007). *Gut Feelings: The Intelligence of the Unconscious*. New York: Viking.

Supplementary Readings (useful for research papers)

Selected readings from below will be required (TBA in class and/or Blackboard)

- Akerlof, G.A. and J.L. Yellen, eds. (1986). Efficiency Wage Models of the Labor Market, Cambridge, England and New York: Cambridge University Press.
- Akerlof, George A. 2002. Behavioral Macroeconomics and Macroeconomic Behavior. *American Economic Review* 92: 411-433.
- Akerlof, G. A. (1982). "Labor Contracts as Partial Gift Exchange," Quarterly Journal of Economics 97: 543-596.
- Akerlof, G.A. (2002). "Behavioral Macroeconomics and Macroeconomic Behavior," *American Economic Review*, 92: 411-433.
- Akerlof, G.A., W. Dickens and G. Perry (2000) "Near-Rational Wage and Price Setting and the Long-Run Phillips Curve," Brookings Papers on Economic Activity (1)-60.
- Akerlof, G.A and Rachel E. Kranton (2010). Identity Economics: How Our Identities Shape Our Work, Wages, and Well-Being. Princeton, New Jersey: Princeton University.
- Akerlof, George A. and Robert J. Shiller (2009). Animal Spirits: How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism. Princeton: Princeton University Press.
- Alchian, Armen A. (1950). "Uncertainty, Evolution, and Economic Theory," Journal of Political Economy 58: 211-
- Altman, Morris (2007). "Behavioral Economics," International Encyclopedia of the Social Sciences. New York: Macmillan.
- Altman, Morris (2005). Reconciling Altruistic, Moralistic, and Ethical Behavior with the Rational Economic Agent and Competitive Markets. *Journal of Economic Psychology* 26: 732-757
- Altman, Morris (2004). "The Nobel Prize in Behavioral and Experimental Economics: A Contextual and Critical Appraisal of the Contributions of Daniel Kahneman and Vernon Smith," Review of Political Economy 16: 3-41.
- Altman, Morris (2001). Worker Satisfaction and Economic Performance: The Microfoundations of Economic Success and Failure. Armonk, New York: M.E. Sharpe.
- Altman, Morris (2001). "Behavioural Economics." Jonathan Michie, ed., Reader's Guide to the Social Sciences. London: Fitzroy Dearborn Publishers.
- Altman, Morris (1999). "A Theory of Population Growth When Women Really Count," Kyklos 52: 27-44.
- Altman, Morris (1998). "High Path to Economic Growth and Development," Challenge: the Magazine of Economic Affairs 41: 91-104.
- Blaug, Mark (1998). "Disturbing Currents in Modern Economics," Challenge: the Magazine of Economic Affairs 41: 11-34.
- Caldwell, Bruce J. (1980). "A Critique of Friedman's Methodological Instrumentalism," Southern Economic Journal 47: 366-374.
- Camerer, Colin F., George Lowenstein, and Matthew Rabin (eds.) (2003). *Advances in Behavioral Economics*. Princeton: Princeton University Press.
- Coase, R.H. (1994). "How Should Economists Choose?" in R. H. Coase, Essays on Economics and Economists, Chicago and London: University of Chicago Press: 15-33.
- Eckel, C.C. and P.J. Grossman (1966). "Altruism in Anonymous Dictator Games." *Games and Economic Behavior*, 16: 181-91.

- Farmer, Roger E. A. (2010). How the Economy Works: Confidence, Crashes and Self-Fulfilling Prophecies. New York: Oxford University Press.
- Friedman, Daniel and Alessandra Cassar (2004). Economics Lab: An Intensive Course in Experimental Economics. London and New York: Routledge.
- Freidman, Daniel and Shyam Sunder (1994). Experimental Economics: A Primer for Economists. New York: Cambridge University Press.
- Friedman, Milton (1953). "The Methodology of Positive Economics." In Milton Friedman, Essays in Positive Economics, Chicago: University of Chicago Press: 3-43.
- Gigerenzer, Gerd (2007). *Gut Feelings: The Intelligence of the Unconscious*. New York: Viking.
- Gigerenzer, Gerd, and Reinhard Selten, eds. (2001). *Bounded Rationality: The Adaptive Toolbox*. Cambridge, MA: MIT Press.
- Gigerenzer, Gerd and Peter M. Todd (1999). "Fast and Frugal Heuristics: The Adaptive Toolbox." In: Gerd Gigerenzer, Peter M. Todd, and the ABC Research Group, eds., Simple Heuristics that Make Us Smart. New York: Oxford University Press.
- Güth, Werner. 1995. On Ultimatum Bargaining Experiments — A Personal Review. *Journal of Economic Behavior & Organization* 27: 329-344.
- Kahneman, Daniel and Amos Tversky (1979). "Prospect Theory: An Analysis of Decisions under Risk," Econometrica 47: 363-391.
- Leibenstein, H. (1966). "Allocative Efficiency vs. 'X-Efficiency,'" American Economic Review 56: 392-415.
- March, James G. (1978). "Bounded Rationality, Ambiguity, and the Engineering of Choice," Bell Journal of Economics 9: 587-608.
- McCloskey, D. N. (1992). "The American Question: If You're So Smart Why Ain't You Rich." In: D.N. McCloskey, If You're So Smart: The Narrative of Economic Expertise. University of Chicago: Chicago: 111-122.
- Miller, G.J., (1992). Managerial Dilemmas: The Political Economy of Hierarchy, New York: Cambridge University Press.
- Musgrave, Alan (1981). "'Unreal Assumptions' in Economic Theory: The F-Twist Untwisted," Kyklos 34: 377-387.
- Rabin, Mathew (1998). "Psychology and Economics," Journal of Economic Literature, 36: 11-46
- Reder, Melvin W. (1982). "Chicago Economics: Permanence and Change," Journal of Economic Literature 20: 1-38.
- Simon, H. A. (1978). "Rationality as a Process and as a Product of Thought," American Economic Review 70, 1-16.
- Smith, V. (2003). "Constructivist and Ecological Rationality in Economics," American Economic Review 93: 465-508.
- Smith, Vernon L. 2005. Behavioral Economics Research and the Foundations of Economics. Journal of Socio-Economics 34: 135–50.
- Stigler, G. J. (1976). "The X-istence of X-Efficiency," American Economic Review 66: 213-216.
- Stiglitz, J.E. (1987). "The Causes and Consequences of the Dependence of Quality on Price," Journal of Economic Literature 25: 1-48.
- Thaler, Richard H. and Cass Sustein (2003). "Behavioral Economics, Public Policy, and Paternalism: Libertarian Paternalism," *American Economic Review, Papers and Proceedings* 93: 175-179.
- Thaler, Richard H. and Cass Sustein (2008). *Nudge: Improving Decisions about Health, Wealth, and Happiness*. New Haven and London: Yale University Press.
- Thaler, Richard H. (1992). The Winner's Curse: Paradox's and Anamolies of Economic Life, New York: Free Press.
- Todd, Peter M., and Gerd Gigerenzer. 2003. Bounding Rationality to the World. *Journal of Economic Psychology* 24: 143–65.

- Tversky, Amos and Kahneman, Daniel (1981). "The Framing of Decisions and the Psychology of Choice," Science 211: 453-458.
- Williamson, Oliver E. (1981). "The Modern Corporation: Origins, Evolutions, Attributes," Journal of Economic Literature 19: 1537-1568.

Materials and Equipment

Any additional notes will be posted on Blackboard.

Assessment Requirements

Your final grade will be composed of:

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| 1. One 15 page (maximum) research paper due LAST WEEK OF CLASS | 25% |
| 2. Two 3 page research reports on selected scholarly articles due date to be advised | 5% |
| 3. A mid-term test. Date to be advised. | 25% |
| 4. A two-hour final exam | 45% |
| 5. Students are required to present an outline or first draft of their paper in class. <i>Take note that plagiarism and other forms of academic dishonesty are reasons enough to fail this course.</i> | |

Quality Assurance Note

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period.

The final examination for this course will be scheduled at some time during the period from Friday 15 June – Wednesday 4 July (inclusive).

Penalties

Late assignments will not be marked. If a satisfactory medical certificate is provided the weight from the assignment will be shifted onto the other pieces of assessment; otherwise the assignment score will be recorded as 0. There will be no mandatory course requirements.

Mandatory Requirements

Two hour final exam, plus a 15 page (maximum) research paper.

Class Representative

An overall class representative will be chosen to represent all SEF Honours classes.

Communication of Additional Information

All course information will be available on Blackboard. Announcements will be posted.

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

Find key dates, explanations of grades and other useful information at www.victoria.ac.nz/home/study

Find out about academic progress and restricted enrolment at <http://www.victoria.ac.nz/home/study/academic-progress.aspx>

The University's statutes and policies are available at www.victoria.ac.nz/home/about/policy, except qualification statutes, which are available via the Calendar webpage at <http://www.victoria.ac.nz/home/study/calendar.aspx> (See Section C).

Further information about the University's academic processes can be found on the website of the Assistant Vice-Chancellor (Academic) at www.victoria.ac.nz/home/about_victoria/avcacademic/default.aspx

AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support

http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/>

Manaaki Pihipihinga Programme

http://www.victoria.ac.nz/st_services/mentoring/