



Behavioral Economics and the Economics of Altruism

Prof. David Reinstein and Prof. Surajeet Chakravary, University of Exeter
Time: 9:00-11:45am. Place 9B106 International Hall

See full set of course material/handouts, available 1-by-1 in a Zip folder [HERE](#), and aggregated [HERE](#). These will be continuously updated ahead of each lecture, so please don't print them too far in advance.

Relevant links for in-lecture [use to be posted HERE](#) (don't do before lecture unless instructed).

NEW: Links to slides below

SHORT COURSE DESCRIPTION

Behavioral economics is gaining widespread acceptance among contemporary economists. Motivated by models and evidence from Psychology, it considers the implications of relaxing key classical assumptions, in particular, to allow for limited willpower, bounded cognition, and other-regarding preferences. Students will get a rigorous but intuitive introduction to prominent behavioral models such as "prospect theory", "satisficing," "time-inconsistent preferences", and "fairness". We will compare these to traditional economic models, considering the evidence, particularly from lab and field experiments, while learning key principles of experimental design and analysis.

The second half will focus on other-regarding preferences (altruism, fairness, guilt, reputation, etc.) – increasingly considered important for social interactions, market outcomes, and efficiency. We will cover economic models of other-regarding behavior, and real world examples, particularly charitable giving (0.5% of South Korean GDP); and also volunteering, blood donations, "ethical" consumption, and CSR. We will assess the evidence on questions such as: "Does government spending crowd out charitable giving?" and "Are people more generous when their choices are observed by others?" We will consider the implications for government and third-sector policies/practice.

The sessions will incorporate some combination of lectures and audio-visual presentations, in-class experiments and surveys, group and individual presentations, and debates and discussions.

This course will combine interactive lectures, in-class experiments and surveys, group research and four projects/presentations (with individual write-ups), and class discussions.

Major Themes

1. Behavioral Economics – Introduction and Background
2. Solitaire: Individual Choices and Preferences
3. Playing with Others: Social Preferences and Interactions
4. Altruistic Behavior: Charitable Giving and Related Activities

READING MATERIALS

A complete set of course notes will be provided. Supplementary (non-required) reading will be referenced or linked within; these will include selections from academic articles, popular media, statistical resources, and online textbooks/handbooks. A sample of these enrichment materials are

given below. The course notes and lectures will provide the core material; the optional materials will enable deeper understanding, provide context, and enrich group/research work.

COURSE REQUIREMENTS AND GRADING

There is no required exam for the course, but an optional exam can be made available in case the home university requires it.

Active participation is encouraged. Students should bring their laptops or similar devices to class as some classes will involve interactive experiments and searching the internet.

In addition, students will work in groups:

- on analytical problems
- preparing for and participating in debates
- on short research projects (see below)

Each student will put together and submit a short “portfolio” outlining and discussing some component of their group work. (We will set aside time to prepare these and Dr. Reinstein will offer guidance.)

Key projects: You will work in groups (with individual components and reports) on a series of four short research projects and presentations. For example, you may focus on a particular behavioral model and its real-world implications and applications. As part of this project you may propose, explain, and justify a lab or field experiment (you don't need to actually run the experiment) to test or measure this.

[The projects are described HERE](#)

Mark shares are:

- 20%: Class Participation
- 30%: Group presentations
- 50%: Individual portfolio of group work

Please note: All ISS classes are pass/fail, but students can request a letter grade if their home university requires it. SKKU regulations require students to attend at least 80% of all classes in order to pass the course. There is no required exam for the course, but an optional exam will be made available in case the home university requires it.

PLANNED COURSE SCHEDULE

(Adjustments are likely to be made to accommodate time constraints and student interests, and readings may be adjusted and augmented)

– WEEK I –

Tuesday (27 June), Day 1 (Chakravarty)

THEME 1: BEHAVIORAL ECONOMICS INTRODUCTION AND BACKGROUND

- What is Behavioral Economics? The Power of Behavioral Economics
- Economic theory, motivations, rational choice, expected utility
- Review key concepts in microeconomics and maths tools

Enrichment (*optional*):

- Camerer and Loewenstein (2004). "[Behavioral Economics: Past, Present, Future](#)"
- Popular books: *Predictably Irrational*; *Nudge*; *Thinking, Fast and Slow*

Slides: [Lecture1-SKKU](#)

Wednesday, Day 2

- Rational Choice: Axioms and violations
- In-class experiments and surveys
- Begin group project I ("a behavioral theory, evidence for it")

Slides: [Lecture2-SKKU](#)

Thursday (29 June), Day 3

- Sources of evidence: Observational, lab and field experiments, surveys, key methodological issues (first class)
- Evidence for behavioral economics: examples
- Motivation - Implications for business and policy: some examples (first pass)

Enrichment (*optional*): [Harrison: Introduction to Experimental Economics](#)

Slides: [Lecture3-SKKU](#)

Friday (30 June), Day 4

Presentation of group project I

THEME 2 – SOLITAIRE: INDIVIDUAL CHOICES AND PREFERENCES

- Introduction
- Prospect Theory and Mental Accounting: theory and evidence (First part)

Slides: [Lecture4-SKKU](#)

– WEEK II –

Monday (3 July), Day 5

- Prospect Theory and Mental Accounting: theory and evidence (Second part)

Enrichment (*optional*): Camerer, C. F. (2000). "[Prospect Theory in the Wild: Evidence from the Field](#)"

Enrichment (*optional*): Fehr and Gotte (2007) "[Do Workers Work More When Wages Are High?](#)"

- Possible group work (Practice problems, debate/discussion of key articles/issues for week I)

Tuesday (4 July), Day 6

- Dynamic choice and time preferences: Introduction
- Group project II work: "Procrastination" project

Wednesday (5 July), Day 7

- Impatience: Time preferences, dynamic inconsistency, self-regulation; theory and evidence

Enrichment (*optional*): Benzarti and Thaler (2004). "[Save More Tomorrow...](#)"

- More time for group project II work (Procrastination project)

Thursday (6 July), Day 8 (Chakravarty and Reinstein)

- *Presentation of group project II (Procrastination project)*

THEME 3 – PLAYING WITH OTHERS: SOCIAL PREFERENCES AND INTERACTIONS

- Introduction
- Game theory: basic concepts
- Sources of evidence (methodology, revisited)

Friday (7 July), Day 9 (Reinstein)

- Overview of (experimental) evidence on social preferences
- Other-regarding preferences and fairness: inequality aversion and fairness/reciprocity
- Discussion, Q&A

Enrichment (optional): Henrich et al (2005). [“Economic man” in cross-cultural perspective: Behavioral experiments in 15 small-scale societies’](#)

- Group project III work: Designing an experiment to test ‘playing with others’ and ORP

– WEEK III –

Monday (10 July), Day 10

- Determinants of contributions in public goods games (VCMs)
- Determinants of trust and trustworthiness

Enrichment (optional): Chaudhuri (2011). [“Sustaining cooperation in laboratory public goods experiments: a selective survey of the literature”](#)

- Group project III work

Tuesday (11 July), Day 11

- Utility from reputation and fear of losing face: Theory, experimental design exercise (relevant to group project III)

Enrichment (optional): Gall and Reinstein, [“Losing Face”](#)

- Presentation of group project III

THEME 4 – ALTRUISTIC BEHAVIOR: CHARITABLE GIVING AND RELATED ACTIVITIES

- Introduction
- Magnitude, statistics (cross-country, etc)
- Models of charitable giving (public goods, warm glow, impact, etc.)

Enrichment (optional): List (2011). [“The market for charitable giving”](#)

Wednesday (12 July), Day 12

(Charitable giving continued)

- Models of charitable giving (public goods, warm glow, impact, etc.) continued
- Institutions, incentives, history, descriptives
- Sources of evidence and methods
- Key issues, basic evidence
 - Price and income elasticity
 - Government crowding out (and vice-versa)
 - Expenditure substitution
 - Fundraising techniques; evidence on 'what works' (first-pass)
- What *causes* people to donate (more) to charity

- Defining the question
- Charity: Does one contribution come at the expense of another? (Evidence, theoretical framework, empirical and experimental issues)

Enrichment (optional): [Karlán and List](#) (2010), “Does Price Matter in Charitable Giving”

Thursday (13 July), Day 13

What *causes* people to donate (more) to charity, continued

- Charity: Social influences and reputation
- Charity: Do 'incentives' work? (gift-exchange, matching donations)
- Charity: Prospect theory, self regulation (Give more tomorrow, Give if you win, self-justifying beliefs, sources of income)
- Fundraising: other influencers, tricks, puzzles (size of the ask, mood, framing...)
- Work on Group Project IV

Enrichment (optional): Dellavigna et al (2012) “[Testing for Altruism and Social Pressure in Charitable Giving](#)”;

Friday (14 July), Day 14

- Gift-giving (Christmas, Chuseok, birthdays...): why do people do it and is it efficient?
- Further work on Group Project IV
- Presentation of Group project IV, feedback

Enrichment (optional):

- Waldfoegel (1993), “[The Deadweight Loss of Christmas](#)”; Response papers ... [\[e.g.\]](#)
- [The Tuesday Podcast: Making Christmas More Joyful, And More Efficient](#)
- 'How to write a research paper': Tips

Monday, (17 July), Day 15

- Review, discussion, catch-up
- Additional presentations (if necessary)
- 'How to write a research paper': Tips
- Time allotted for individual write-up of portfolios, consultation with Dr. Reinstein