



Behavioral Economics and the Economics of Altruism

Prof. Yoonho Choi, Kent State University

SHORT COURSE DESCRIPTION

The aim of this course is to enable you to examine decision-making from a behavioral economics perspective. Understanding how we make decisions is key to understanding human welfare. Individuals make decisions not only for their own welfare now and for the future, but their decision also has an impact on the welfare of society as a whole. We will start with more mainstream decision theory and highlight instances where it predicts actual choices correctly and instances where it does not. You will be introduced to behavioral theories that have emerged to explain the empirical observations and will discuss the implications for understanding society, environment, economics, business, and politics.

Through this course, we aim to teach and learn the following concepts and skills:

1. Describe behavioral Economic analysis and how it differs from standard Economic analysis.
2. Describe and explain the methods used in Behavioral Economics, including strengths and weaknesses.
3. Apply the material in the course to better understand human behavior and identify situations in which human behavior may not be fully rational.
4. Explain the policy implications derived from the analysis and empirical results in Behavioral Economics.

- Instructor Office: TBA
- Office Phone: TBA
- Email: TBA
- Office hours: TBA

READING MATERIALS

Class Materials

Required: No Textbook is required

- a. There is no textbook for this course. The fairly detailed lecture slides are meant to be self-explanatory, and they are complemented by recitation notes as well as by a set of readings for each class, as specified in the reading list. Lectures, quizzes, exams, and problem sets will feature these readings. If reading is marked as required, you are responsible for preparing the paper prior to class, which means reading the sections announced in class, usually the abstract, introduction, and selected sections of the paper.
- b. All materials, including lecture notes, group activities, and discussion documents will be on *Icampus*
- c. A calculator (capable of addition, subtraction, multiplication, and division)

COURSE REQUIREMENTS AND GRADING

Grade Guideline:

The assessment and grading will be based on a combination of students' in-class activities, homework, economic analysis, and three exams. In particular, students will be organized into small groups and choose a group project topic from a list of topics provided by the lecturer, proposed by the students, and approved by the lecturer. **All ISS classes are pass/fail on the student's academic achievement evaluated by grades on a scale of 100 points (a grade of 60 or above is a Pass).**

Note that SKKU regulations **require students to attend at least 80% of all classes**. Students are expected to familiarize themselves with SKKU policies about plagiarism, academic dishonesty, etc.

Course Structure:

Grading breaks:

Activity	Weight
Analysis	20%
Participation	10%
Projects	30%
Presentation	10%
Exam	30%
Total	100%

1. **Teams:** Team-based learning is a teaching strategy designed to promote active, collaborative learning and improve understanding of course materials. At the beginning of the first class, groups will be formed.
2. **Participation:** Students will score participation points through playing (and playing well) strategic games both in and outside of class. These games and experiments will facilitate a more intuitive understanding of the often-formal concepts in game theory, and we need everyone's participation to make these work optimally.
3. **Analysis:** Students will be given team in-class analysis and case studies throughout the course. These activities include discussion groups, problem-solving activities, and business experiments. These in-class problems and discussions are meant for students to apply the material learned in class. The problems, discussions, and economic experiments are ways of mastering the student's understanding of the course.
4. **Problem Sets:** Several homework assignments requiring the solving and analyzing of several strategic games will be required during the semester. While the games we play in and out of class will often provide intuition, the problem sets will help to solidify intuition into a more rigorous understanding.
5. **Projects:** The purpose of the projects is to give students a more enjoyable and creative opportunity to apply game theoretic principles to real-world issues that interest them and escape the "here is a problem, solve it. Here is another problem, solve it" grind. The project will be tailored to the interests and needs of each particular class.
6. **Exam:** Each exam is open-book, open-notes. The exam is on July 11th during the last class meeting (a two-hour long test). Financial calculators are allowed, but graphing calculators with alphabetical

keyboards, wireless devices, and mobile phones are **NOT** allowed.

7. **Attendance Policy:** There are **15 class periods** during the semester. A student is expected to attend every class. However, SKKU regulations **require students to attend at least 80% of all classes**. Unexcused absences will result in missed points for team activities. An excused absence must be supported by written documentation about the medical or family emergency.
8. **Valid Excuses:** If your medical emergency or an illness or death in your family causes you to miss class, you must inform me of the emergency before class (e.g., send me an email) and soon afterward submit a written explanation (including date of absence and documentation).

COURSE SCHEDULE

– WEEK I –

Monday (1 July)

- Introductions, syllabus overview, expectations
- 1. Fundamentals of Rational Choice
 - What is behavioral economics?
 - The standard economic model
- Activity 1: Should we bin the standard economic model?

Tuesday (2 July)

- 2. Simple heuristics for complex choices
 - Utility and search
 - Lying and deception
 - Demand, supply and markets
 - Labor supply
- Activity 2: Housing market
- Activity 3: Saving for the future

Wednesday (3 July)

- 3. Choice with risk: Decision-making in a risky world
 - Expected utility
 - Independence and fanning out
 - Reference dependence and prospect theory
- Activity 4:
- Group Project: Step 1 – Find two business examples

Thursday (4 July)

(Continued Choice with risk: Decision-making in a risky world)

- Preference reversals
- Financial trading
- Activity 5: Insurance
- Activity 6: Tax evasion
- Group Project: Step 2 – Make strategies for the case

– WEEK II –

Monday (8 July)

4. Time Preferences

- The standard model
- Exponential discounting
- Activity 7: Borrowing and saving
- Activity 8:
- Group Project: Step 3 – Illustrate the case study

Tuesday (9 July)

(Continued Time Preferences)

- Hyperbolic discounting
- Sequences
- Activity 8: Time inconsistency and firm pricing
- Group Project: Step 3 – Illustrate the case study

Wednesday (10 July)

5. Valuing the future

- Time preferences (How do we value our and the earth's future?)
- Activity 9:
- Group Project: Step 4 – Make a presentation file

Thursday (11 July)

Exam 2 for CHs 1, 2, 3, 4, and 5

– WEEK III –

Monday (15 July)

- 6. Making decisions in everyday life - Heuristics in decision-making
 - Choice with uncertainty
 - Confirmatory bias
 - Law of small numbers
 - Activity 10: Health care

Tuesday (16 July)

(Continued Making decisions in everyday life - Heuristics in decision-making)

- Generating random sequences
- Information cascades and conformity
- Signaling games
- Activity 11: Market bubbles
- Analysis 12: Voting
- Group Project: Step 1 – Free Topics

Wednesday (17 July)

- 7. Behavioral Games Theory
 - The beauty contest
 - Playing a game for the first time
 - Learning from experience
 - Activity 13: Waiting Games: Preemption and Attrition
 - Group Project: Step 2 – Make Scenarios

Thursday (18 July)

(Continued Behavioral Games Theory)

- Teams versus individual decision making
- Auctions
- Coordination games
- Activity 14:
- Group Project: Step 3 – Illustrate the case with sequential games

– WEEK IV–

Monday (22 July)

(Continued Behavioral Games Theory)

- Industrial organization
- Monetary policy by committee
- Activity 15:
- Group Project: Step 4 – Make a Presentation file

Tuesday (23 July)

8. Social Preferences

- Evidence for social preferences
- Inequality aversion
- Intentions and social norms
- Activity 16:
- **Group Project 2 Presentation 1**

Wednesday (24 July)

(Continued Social Preference)

- Social preferences in teams
- Giving to charity
- Price and wage rigidity A Game of Incomplete Information: The Munich Agreement
- Activity 17:
- **Group Project 2 Presentation 2**