

# Econ 421/521: Behavioral Economics and Behavioral Finance

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## Prerequisites:

Math 110, 111 (Single Variable Calculus)  
Math 203 (Introduction to Statistics)  
Econ 200 (Principles of Microeconomics)

## Course Description:

This course will introduce you to the fields of behavioral economics and behavioral finance. Behavioral economics is the economic study of human behavior with respect to individual choice, social situations, markets and institutions. The goal of the field is to improve the descriptive accuracy and explanatory power of traditional economic analysis. Behavioral finance is the application of insights from behavioral economics and psychology to the study individual financial decisions and properties of financial markets and market prices.

We will explore both areas from a multidisciplinary perspective and using different methodologies (experiments, theory, field studies), focusing on both fundamental concepts and their applications at different levels of social aggregation (from individuals to markets). In addition, we will be examining the action of natural selection on decision-making algorithms and considering the implications of biological evolution for the field of behavioral economics.

<b>Class</b>	<b>Date</b>	<b>Topic</b>
1	30-Aug	Introduction: Beliefs, Heuristics and Biases
	6-Sep	Labor Day
2	13-Sep	Endowments, Property Rights, Willingness to Pay/Accept 1
3	20-Sep	Endowments, Property Rights, Willingness to Pay/Accept 2
4	27-Sep	Bubbles, Crashes, Cascades and Herding
5	4-Oct	Agency
6	11-Oct	Intertemporal Choice
7	18-Oct	Natural selection, Sexual Selection, and Human Behavior 1
8	25-Oct	Natural selection, Sexual Selection, and Human Behavior 2
9	2-Nov	Risk, Prospect Theory, and References Points 1
10	8-Nov	Risk, Prospect Theory, and References Points 2
11	15-Nov	Behavioral Health Economics
	22-Nov	Thanksgiving Break
12	29-Nov	Gender and Behavioral Economics
13	6-Dec	Norms

## Learning Outcomes:

1. Students will be able to describe key ideas from behavioral economics and behavioral finance
2. Students will be able to describe the dialogue that has taken place between neo-classical and behavioral economics from 1950 to the present and provide examples of how behavioral economics and behavioral finance have changed mainstream economic and financial analysis.
3. Students will be able to apply behavioral economic models to predict economic and financial
4. Students will be able to understand how natural selection can act on decision-making, especially with respect to risk and time-preference.
5. Students will demonstrate effective written and oral.

## Graduate Student Outcomes:

6. Students will make progress towards developing their individual research projects.

## Additional Outcomes:

1. Students will gain practice reading scientific papers.
2. Students will gain understanding of the scientific method, including how hypotheses are formed, how test to generate data are constructed and how the data is evaluated.
3. Students will gain insight into experimental design as tool within the scientific method.
4. Students will gain skills evaluating conflicting conclusions of scientific research.

## Primary Reading:

Journal articles and other academic papers assigned each week will constitute the primary materials.

## Supplemental Textbook:

Wilkinson, N. and Klaes, M. (2012) *An Introduction to Behavioral Economics*. Palgrave MacMillian. Second Edition

## Texts for Further Reading:

Gneezy, U and List J. (2013) *The Why Axis: Hidden Motives and the Undiscovered Economics of Everyday Life*. Public Affairs.

Kahneman, D. (2011) *Thinking, Fast and Slow*. Farrar, Straus and Giroux.

Thaler, R and Sunstien, C (2008) *Nudge: Improving Decisions about Health, Wealth, and Happiness*. Yale University Press.

## Evaluation:

Most important in the evaluation will be progress through time during the class. The evaluation for this course will consist of four parts:

1. **Readings and Class Participation:** (20%) Students are expected to read each article from the mandatory reading list and email their responses to comprehension questions, by the start of class. They are also expected to participate in a class discussion.
2. **Presentations:** (20%) Undergraduate students will choose one paper from the mandatory reading list to present and discuss in class, with a slide presentation. Students should send their slide deck to the instructor on the Thursday before the class in which they are to present it. Graduate students will present two papers, one of which should be marked  $\gamma$ .
3. **Mid-term Exam:** (30%) The (take home) mid-term exam will be of essay questions on readings and class discussion. The essays should be about 8-10 pages. Graduate students will need to answer additional question(s).
4. **Final Exam:** (30%) The (take home) final exam will of essay questions on readings and class discussion. The essays should be about 8-10 pages. Graduate students will need to answer additional question(s).

**Chapman University's Academic Integrity Policy:** Chapman University is a community of scholars that emphasizes the mutual responsibility of all members to seek knowledge honestly and in good faith. Students are responsible for doing their own work, and academic dishonesty of any kind will be subject to sanction by the instructor/administrator and referral to the University's Academic Integrity Committee, which may impose additional sanctions up to and including expulsion. Please see the full description of Chapman University's policy on Academic Integrity at [www.chapman.edu/academics/academic-integrity/index.aspx](http://www.chapman.edu/academics/academic-integrity/index.aspx).

**Chapman University's Students with Disabilities Policy:** In compliance with ADA guidelines, students who have any condition, either permanent or temporary, that might affect their ability to perform in this class are encouraged to contact the [www.chapman.edu/students/student-health-services/disability-services](http://www.chapman.edu/students/student-health-services/disability-services) If you will need to utilize your approved accommodations in this class, please follow the proper notification procedure for informing your professor(s). This notification process must occur more than a week before any accommodation can be utilized. Please contact Disability Services at (714) 516-4520 if you have questions regarding this procedure, or for information and to make an appointment to discuss and/or request potential accommodations based on documentation of your disability. Once formal approval of your need for an accommodation has been granted, you are encouraged to talk with your professor(s) about your accommodation options. The granting of any accommodation will not be retroactive and cannot jeopardize the academic standards or integrity of the course.

Policy on accommodations students with disabilities including impact of remote instruction:  
Accommodations for Remote Learning

**Chapman University's Equity and Diversity Policy:** Chapman University is committed to ensuring equality and valuing diversity. Students and professors are reminded to show respect at all times as outlined in Chapman's Harassment and Discrimination Policy. Any violations of this policy should be discussed with the professor, the Dean of Students and/or otherwise reported in accordance with this policy.

**CoVID-19 Protocols:** Please see the CU Safely Back website as protocols could change throughout the semester or trimester.

In this class, software might be used to record live class discussions. As a student in this class, your participation in live class discussions will be recorded to assist those who cannot attend the live session, or to serve as a resource for those who would like to review content that was presented. These recordings will be made available only to students who are enrolled in the class, and only during the period in which the course is offered. All recordings will become unavailable to students in the class shortly after the course ends. Students who prefer to participate via audio only will be allowed to disable their video camera so only audio will be captured. Please discuss this option with your instructor.

## Tentative Reading List:

$\gamma$  Required only for graduate students

$\$$  Behavioral Finance paper

### Class 2: Endowments, Property Rights, Willingness to Pay/Accept 1

Discussion Papers:

- \*  $\$$  Kahneman, Knetsch and Thaler (1990) **Experimental Tests of the Endowment Effect and the Coase Theorem**
- \*  $\$$  Franciosi et al. (1996) **Experimental Tests of the Endowment Effect**

Background Reading: W&K Chap 5.4, 5.5 & Case 5.1

Extra Reading: List (2003) **Does market experience eliminate market anomalies?**

### Class 3: Endowments, Property Rights, Willingness to Pay/Accept 2

Discussion Papers:

- \* Yee (2003) **Ownership and Trade from Evolutionary Games**
- \*  $\$$  Fabbri, Rizzolli and Maruotti (2021) **Possession is Nine-Tenths of the Law: Possession, Property, and Coordination in a Hawk–Dove Experiment**
- \*  $\$$  Akerlof (1970) **The Market for Lemons**

Background Reading: W&K Chap 9

### Class 4: Bubbles, Crashes, Cascades and Herding

Discussion Papers:

- \*  $\$$  Caginalp, Porter, and Smith (2001) **Financial Bubbles: Excess Cash, Momentum, and Incomplete Information**
- \*  $\$$  Efferson et al. (2008) **Conformists and Mavericks**
- \*  $\$$  Shiller (2003) **From Efficient Markets Theory to Behavioral Finance**
- \*  $\$ \gamma$  Boyle et al. (2012) **Keynes Meets Markowitz: The Trade-Off between Familiarity and Diversification**

## Class 5: Agents

Discussion Papers:

- \* \$ Deck and Tracy (2021) **Keeping a Clean Reputation: More Evidence on the Perverse Effects of Disclosure**
- \* \$ Schniter, Tracy and Zíka (2021) **Uncertainty and Reputation Effects in Credence Goods Markets**

## Class 6: Intertemporal Choice

Discussion Papers:

- \* \$ Camerer et al. (1997) **Labor Supply of New York City Cabdrivers: One Day at a Time**
- \* \$ Imai et al. (2019) **Meta-Analysis of Present-Bias Estimation Using Convex Time Budgets**
- \* Rogers (1994) **Evolution of Time Preference by Natural Selection**
- \* Robson and Samuelson (2009) **The Evolution of Time Preference with Aggregate Uncertainty**

Background Reading: W&K Chap 7

Extra Reading:

- \* Robson and Szentes (2008) **Evolution of Time Preference by Natural Selection: Comment**
- \* Andersen et al. (2013) **Discounting Behaviour and the Magnitude Effect: Evidence from a Field Experiment in Denmark**

## Class 7: Natural selection, Sexual Selection and Human Behavior 1

Discussion Papers:

- \* Kaplan and Robson (2003) **The Evolution of Human Life Expectancy and Intelligence in Hunter-Gatherer Economies**
- \* Kaplan and Gurven (2005) **The Natural History of Human Food Sharing and Cooperation**
- \* Kaplan and Robson (2009) **We Age Because We Grow**

## Class 8: Natural selection, Sexual Selection and Human Behavior 2

Discussion Papers:

- \* Henrich et al. (2001) **In Search of Homo Economicus**
- \* Alger et al. (2020) **Paternal Provisioning Results from Ecological Change**
- \* Bartos et al. (2021) **Effects of Poverty on Impatience: Preferences or Inattention?**
- \*  $\gamma$  Trivers (1972) **Parental Investment and Sexual Selection**

Background Reading: W&K Chap 10

### **Class 9: Risk, Prospect Theory and References Points 1**

Discussion Papers:

- \* \$  $\gamma$  Kahneman and Tversky (1979) **Prospect Theory: An Analysis of Decision under Risk**
- \* \$  $\gamma$  Harrison and Rutstrom (2009) **Expected Utility Theory and Prospect Theory: One Wedding and a Decent Funeral**

Background Reading: W&K Chap 5

### **Class 10: Risk, Prospect Theory and References Points 2**

Discussion Papers:

- \* Rayo and Becker (2007) **Habits, Peers, and Happiness: an Evolutionary Perspective**
- \* Price and Jones (2020) **Fitness-Maximizers Employ Pessimistic Probability Weighting for Decisions under Risk**
- \* Ferraro and Tracy (2021) **A Reassessment of the Potential for Loss-Framed Incentive Contracts to Increase Productivity: A Meta-Analysis and Real-Effort Experimental Design**

### **Class 11: Behavioral Health Economics**

Discussion Papers:

- \* \$ Tracy et al. (2021) **An Experimental Investigation of Income, Insurance, and Investments in Health over the Life Course**
- \* \$ Bejerano, Green and Rassenti (2017) **Payment Scheme Self-Selection in the Credence Goods Market: An Experimental Study**

### **Class 12: Gender and Behavioral Economics**

Discussion Papers:

- \* \$ Charness and Gneezy (2012) **Strong Evidence for Gender Differences in Risk Taking**
- \* \$ Niederle and Vesterlund (2011) **Gender and Competition**
- \* Cassar, Wordofa and Zhang (2016) **Competing for the Benefit of Offspring Eliminates the Gender Gap in Competitiveness**

### **Class 13: Norms**

Discussion Papers:

- \* Andreoni, Harbaugh and Vesterlund (1988) **The Carrot or the Stick: Rewards, Punishments, and Cooperation**
- \* Akerlof and Kranton (2000) **Economics and Identity**
- \* Hooper et al. (2010) **A Theory of Leadership in Human Cooperative Groups**
- \* Muthukrishna, Morgan and Henrich (2006) **The When and Who of Social Learning and Conformist Transmission**
- \* Binmore and Samuelson (1994) **An Economist's Perspective on the Evolution of Norms**