

UCD School of Economics and UCD School of Psychology

Behavioural Economics and Public Policy

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Module Descriptor

Without doubt, the next hot research topic after new growth theory, at least here in Cambridge, has been behavioral economics, which integrates economics and psychology. [...] Research on behavioral economics has promise for providing new perspective on public policy.

Greg Mankiw, Behavioral Economics, Greg Mankiw's blog, 28 June 2006.

This course provides a comprehensive survey of the emerging area of behavioural economics, where insights from psychology are used to improve the realism of economic models. Students will be introduced to the fundamentals of rational choice theory and the course will examine how the recent literature has sought to explain departures from rational choice and their implications for economics and economic policy. The course will, in particular, survey how the recent literature has examine heuristics in decision making, how individuals make decisions involving risk and time, how the brain encodes economic decisions and the implications of all this work for key areas of the economy such as taxation and pensions.

Learning outcomes

On completion of this module students should be able to:

1. Have a deep awareness of this growing interdisciplinary area
2. In particular, understand how individual information processing determines economic choices and well-being and how this affects the broader economy.
3. Be able to understand methodological issues in behavioural economics research as to formulate research questions of key areas of interaction between economics and psychology.

4. Be able to apply thinking from behavioural economics to questions of relevance for business, government and non-government sector.

Requirements

The course requires prior grounding in either economics or psychology and is designed to be accessible to people who have taken two to three years of training in either discipline.

Assessment

Assessment takes the form of an essay and an end of year exam (50% each).

Lectures

Lecture 1: Introduction to Behavioural Economics

Lecture 2: Rational Choice

Lecture 3: Judgment, Heuristics and Biases

Lecture 4: Inter-temporal Choice

Lecture 5: Neuro-economics

Lecture 6: Well-Being, Suicide and the Economy

Lecture 7: Identity, Motivation and Incentives

Lecture 8: Emotion and Decision Making

Lecture 9: Public Policy, Law and Behavioural Economics

Reading Lists

Textbooks

As of yet, there is no real textbook in behavioural economics. I would recommend all the following books highly. My assumption is that by choosing this course, you are indicating that you want to learn as much about behavioural economics as possible so I would advise you to read everything below and more if you can. However, I have marked with three asterixes material that is directly examinable.

****Advances in Behavioral Economics*, Colin Camerer, George Loewenstein, and Matthew Rabin, eds., Princeton University Press, 2004.

Choices, Values, and Frames, Daniel Kahneman and Amos Tversky, eds., Cambridge University Press and Russell Sage Foundation, 2000.

Relevant Articles

1. Introduction to Behavioural Economics

Overview Articles

***Rabin, M. (2002). "A Perspective on Psychology and Economics," *European Economic Review*, 46, 657-685.

Camerer, C. and G. Loewenstein (2003). "Behavioral Economics: Past, Present, Future," Mimeo, Carnegie Mellon University (introduction for *Advances in Behavioral Economics*).

Rabin, M. (1998). "Psychology and Economics," *Journal of Economic Literature*, 36, 11-46

2. Rational Choice

***Rabin, M. (2002). "A Perspective on Psychology and Economics," *European Economic Review*, 46, 657-685.

Kahneman, (2003), "A Psychological Perspective on Economics", *The American Economic Review*, 93, 2

3. Judgment, Biases and Heuristics

****Choices, Values, and Frames*, Daniel Kahneman and Amos Tversky, eds., Cambridge University Press and Russell Sage Foundation, 2000.

4. Intertemporal Choice

***Frederick, S., Loewenstein, G. & O'Donogue, T. (2002), "Time discounting and time preference: a critical review", *Journal of Economic Literature*, 40: 351-401

Fehr, E. (2002), "The economics of impatience", *Behavioural Science*, 415: 269-272

5. Neuroeconomics

***Camerer, C.F., Loewenstein, G., Prelec, D. (2004). "Neuroeconomics: why economics needs brains". *Scandinavian Journal of Economics* 106(3): 555-579

***Camerer, C.F., Loewenstein, G., Prelec, D. (2005). "Neuroeconomics: how neuroscience can inform economics". *Journal of Economic Literature* 43(1):9-64

Breuetigam, S. (2005). "Neuroeconomics - from neural systems to economic behaviour". *Brain Research Bulletin* 67(5): 355-360

Glimscher, P.W. (2003). "Decisions, uncertainty and the brain: the science of neuroeconomics". Cambridge, MA: The MIT Press

Glimscher, P.W., Rustichini, A. (2004). "Neuroeconomics: the consilience of brain and decision". *Science* 306(5695): 447-452

Zak, P.J. (2004). "Neuroeconomics". *Phil. Trans. R. Soc. Lond. B* 359: 1737-1748

A full list of articles and resources is available on the website of my neuroeconomics lab

<http://geary.ucd.ie/neuroeconomics>

6. Well-Being, Suicide and the Economy

***Brainerd, E. (2001) "Economic Reform and Mortality in the Former Soviet Union: A Study of the Suicide Epidemic in the 1990s." *European Economic Review*, 2001, 45, pp. 1007-19.

Hamermesh, D. and Soss, N. "An Economic Theory of Suicide." *The Journal of Political Economy*, 1974, 82(1), pp. 83-98.

Hamermesh, D. S. "The Economics of Black Suicide." *Southern Economic Journal*, 1974, 41(2), pp. 188-99.

Kahneman, D., Krueger, A. B., Schkade, D., Schwarz, N., & Stone, A. A. (2004). Would you be happier if you were richer? Science: Full Text: (<http://www.sciencemag.org/cgi/content/full/312/5782/1908>)

Kahneman, D., Krueger, A. B., Schkade, D., Schwarz, N., & Stone, A. A. (2006). Day Reconstruction Method. Science: Full Text: (<http://www.sciencemag.org/cgi/content/full/306/5702/1776>)

7. Identity, Motivation and Incentives

***Akerlof, G. A. and Kranton, R. E. "Economics and Identity." *The Quarterly Journal of Economics*, 2000, CXV(3), pp. 715-53.

Akerlof, G. A. "Men without Children." *The Economic Journal*, 1998, 108, pp. 287-309.

Fehr, E., and Falk, A., (2001) "Psychological Foundations of Incentives." Schumpeter Lecture at the European Economic Association Meeting 2001. *European Economic Review* 46 (2002), 687 – 724.

8. Emotion and Decision Making

***Loewenstein, G. (2000). Emotions in economic theory and economic behavior. *American Economic Review: Papers and Proceedings*, 90, 426-432.

***Loewenstein, G. (1996). Out of control: visceral influences on behavior. *Organizational Behavior and Human Decision Processes*, 65, 272-92.

Ariely, D. & Loewenstein, G. (2006). The heat of the moment: The effect of sexual arousal on sexual decision making. *Journal of Behavioral Decision Making*, 19(2), 87-98.

9. Public Policy, Law and Behavioural Economics

***Thaler, RH, Benartzi, S. (2004) Save More Tomorrow (TM): Using behavioral economics to increase employee saving. *Journal of Political Economy*, 112 (1): S164-S187 Part 2 Suppl. S FEB 2004

Thaler, RH "Psychology and Savings Policies", *American Economic Review*, 84 (2): 186-192 MAY 1994

Sunstein, C., and Thaler, R., (2003). "Libertarian Paternalism," 93 *American Economic Review* 175.

