ECON2013 Behavioral Economics
Second Semester - 2016

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Recommended textbook            Erik Angner, A course in behavioral economics,

COURSE OVERVIEW
(Parts of this course outline draw on statements and ideas that appear in Paul Chen’s course outline for ECON1101. His help is appreciatively acknowledged.)

What this Course is About
This course is an introduction to behavioral economics: the attempt to incorporate insights from psychology into economics. Though behavioral economics is a relatively new field, it has already led to one Nobel Prize and is beginning to have a significant impact in a wide range of disciplines including finance, marketing, management, industrial organization, psychology, political science, and philosophy.

In this course, we will study how behavioral economists attempt to explain a range of psychological and social phenomena, and how those explanations differ from standard economic ones. Likely topics include drug use, sex, crime, gambling, over-eating, overconfidence and procrastination. In particular, we will study various ways in which (apparent) irrationality influences people’s judgment and decision-making.

Behavioral economics is invaluable to anyone with an interest in human behavior. It is particularly relevant to those with an interest in economics, management, marketing, industrial organization, public policy, and the psychology of judgment and decision-making. No previous acquaintance with economics is necessary.

Learning Outcomes and General Information
On satisfying the requirements for this course, students should have the knowledge and skill:
• to understand how behavioral economists think and approach economic questions.
• to understand and be able to clearly express the advantages, disadvantages, criticisms and limitations of behavioral economics.
• to understand the tools taught in class and be able to recognise their application to the analysis of real world situations.
• to understand aspects of decision-making under uncertainty and inter-temporal choice and solve simple analytical problems.

Attendance at lectures is expected. Students are responsible for all material and announcements that they miss due to absence. Lectures will be held during all 13 teaching weeks of the semester.

Tutorials will meet weekly beginning in Week 2. Tutorial enrolment generally opens after the first scheduled lecture and remains open for approximately 2 weeks – these details will be finalised closer to the beginning of the semester and will be mentioned in the lectures and posted on Wattle.

How to Learn the Material
To learn the material, it is necessary but not sufficient to attend lectures regularly and do the assigned readings. Readings are listed with the course schedule below and any additional readings will be listed at the end of the slides for the relevant lecture. A quick read of those pages before the lecture will have a high payoff. Use the lectures as a guide to which material is important and/or may be difficult to understand. I strongly urge students to attend lectures and take careful notes.

As indicated above in the learning outcomes, a crucial component of the course is the ability to analyze a situation using the tools developed by behavioral economists. Learning-by-doing is the best way to do this, which in turn can be aided by doing the tutorial problems before attending the tutorial. Learning how to solve problems is not acquired by merely copying down the answers provided in the tutorial. The exercises throughout the text provide additional practice in problem solving.

Asking questions in tutorials is encouraged. Assistance from the tutors and myself is provided with the expectation that the student has attended lectures, kept up with the readings, and has made a serious effort in answering the tutorial questions.

Passing this course should not prove difficult if you keep up with the material, pay attention in lectures, prepare for and participate in tutorials, and seek assistance from your tutor or myself in a timely fashion.

Assessment
Your course mark will be based on three components:

(1) Problem Sets – 25% of course mark
I will upload five problem sets and their due dates during the course. Students should deposit their answers in the appropriately labelled submission box which is located to the left on the inquiries desk on Level 1 of the HW Arndt Building (No. 25A). Assignments must include the cover sheet available from the inquiries desk or downloaded from here. Please keep a copy of tasks completed for your records.

Late problem sets will not be accepted. Your mark for this component will exclude the problem set that you were awarded the lowest score. This allows for an unanticipated contingency that may arise during the semester. It is strongly recommended, however, that you endeavour to submit answers to all the problem sets.

(2) Mid-Semester Exam – 25% of course mark
The mid-semester exam is not compulsory. Tentatively, the exam will be in Teaching Week 7 or 8 but the exact date and time is yet to be determined. It will be based on the material covered in the first five weeks of lectures. There will be no special examination for the mid-semester exam. Instead the weighting will be automatically moved to the final exam.

(3) **Final Semester Exam** – 50-75% of course mark
The final exam will cover material presented throughout the semester and will be held during the university examination period.

The mid-semester and final exams assess a student’s understanding and mastery of the material. Further information about the exam structure will be provided in the lecture before the exam date.

The motivation behind the problem sets is to encourage students to keep up with the lectures and readings. Sometimes, problems will be assigned on material not covered in class or that extends the lecture material; it’s all right if you make mistakes, you will learn a lot from them. Each student must hand in an individually written answer to each problem set, but group discussion is encouraged.

Please note that in computing your “raw” course mark, if the minimum percentage score received on the problem sets or the mid-semester exam is lower than the percentage score received on the final, then the score for the problem sets or the mid-semester exam will not be used in calculating the “raw” course mark. Instead, the weight of the final semester exam will be increased to 75%. That is, the final exam's weight will be increased from 50% to 75% only if that improves a student's overall percentage score.

Your “raw” course mark will be based on the raw marks for the above three assessment components appropriately weighted. The final course mark may differ from the raw course mark if scaling is necessary. Scaling may be up or down. Any scaling applied, however, will preserve the rank order of the raw mark. That is, if your raw course mark exceeds or equals that of another student, then your scaled course mark will be no less than the other student’s.

**Other Administrative Matters**
Announcements, tutorial assignments and any course hand-outs may be found at the Wattle site for ECON2013. All students formally enrolled in this course or ECON6013 should have access to this site and should check it at least once a week, if not more frequently. One may enter Wattle via [https://wattle.anu.edu.au](https://wattle.anu.edu.au).

ANU has educational policies, procedures, and guidelines, which are designed to ensure that staff and students are aware of the University’s academic standards, and implement them. You can find the University’s education policies and an explanatory glossary at: [http://policies.anu.edu.au/](http://policies.anu.edu.au/). Students must be aware of and follow the ANU [Code of Practice for Student Academic Integrity](http://policies.anu.edu.au/) policy.

Other key policies include:
- Student Assessment (Coursework)
- Student Surveys and Evaluations

Students are expected to have read the [Student Academic Integrity](http://policies.anu.edu.au/) Policy before the commencement of their course.
Privacy Notice
The ANU has made a number of third party, online, databases available for students to use. Use of each online database is conditional on student end users first agreeing to the database licensor’s terms of service and/or privacy policy. Students should read these carefully.

In some cases student end users will be required to register an account with the database licensor and submit personal information, including their: first name; last name; ANU email address; and other information.

In cases where student end users are asked to submit ‘content’ to a database, such as an assignment or short answers, the database licensor may only use the student’s ‘content’ in accordance with the terms of service – including any (copyright) licence the student grants to the database licensor.

Any personal information or content a student submits may be stored by the licensor, potentially offshore, and will be used to process the database service in accordance with the licensors terms of service and/or privacy policy.

If any student chooses not to agree to the database licensor’s terms of service or privacy policy, the student will not be able to access and use the database. In these circumstances students should contact their lecturer to enquire about alternative arrangements that are available.
I. Introduction (1 Lecture)
   A. Origins of behavioral economics – Chapter 1.2
   B. Methods – Chapter 1.3

II. Choice Under Certainty (5 Lectures)
   A. Rational Choice – Chapter 2 (2 Lectures)
   B. Opportunity costs, sunk costs, coherent arbitrariness and context effects
      – Chapter 3.2, 3.3 & 3.4 (1 Lecture)
   C. Loss aversion, Anchoring & Adjustment, Choice Overload
      – Chapter 3.5 & 3.6 (1 Lecture)
   D. Framing effects, bundling & mental accounting – Chapter 7.2 & 7.3 (1 Lecture)

III. Judgement Under Risk and Uncertainty (5 Lectures)
   A. Probability theory – Chapter 4.2, 4.3 (1 Lecture)
   B. Conditional probability, Total Probability, Bayes’s Rule and Bayesian updating – Chapter 4.4, 4.5 & 4.6 (1 Lecture)
   C. Conjunction & disjunction fallacies, representativeness heuristic
      – Chapter 5.3 (1 Lecture)
   D. Representativeness and other heuristics and biases
      – Chapter 5.2, 5.4, 5.5 & 5.6 (2 Lectures)

IV. Choice Under Risk and Uncertainty (5 Lectures)
   A. Rational choice under uncertainty – Chapter 6 (2 Lectures)
   B. The Allais and Ellsberg problems, probability weighting and multiple priors –
      Chapter 7.4, 7.5 & 7.6 (3 Lectures)

V. Inter-temporal Choice (5 Lectures)
   A. The exponential discounted utility model – Chapter 8 (1 Lecture)
   B. Evidence Against the EDU model – (1 Lecture)
      See references from Lecture 18 slides
   C. Hyperbolic discounting – Chapter 9.2 & 9.3 (1 Lecture)
   D. Temptation and Self-Control – (1 Lecture)
      See references from Lecture 20 slides
   E. Misprediction and miswanting – Chapter 9.5 (1 Lecture)

VI. Applied behavioral economics (2 Lectures)
   A. Behavioral welfare economics – Chapter 12.2 (1 Lecture)
   B. Assessing behavioral economics – Chapter 12.3 (1 Lecture)