

ECON-310: Introduction to Behavioural Economics

Fall 2020

Lectures: Wednesday and Friday 8:35-9:55am

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Office hours: Thursday 1-3pm

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Structure

Behavioural economics is a relatively new field which challenges the methods, assumptions and conclusions obtained through classical economics. This is done with the use of modern psychology theory, behavioural experiments and field studies. In this course, you will learn how to challenge classical models of economic decisions while maintaining the rigour of economic analysis and you will examine the main theories developed by behavioural economists from recent years.

The course will consist of weekly meetings where we will discuss academic papers. The class will be broken up into 4 groups. Each group is expected to attend one meeting per week in which you will be expected to participate in a discussion about the required reading for the week.

I will also make some videos available on *MyCourses* that will support the material seen in the academic papers. These will be released sporadically and will probably be shorter than an in-person lecture would be. The advantage to making these videos, as opposed to a lecture, is that you will be able to watch them multiple times and pause them whenever you need. The downside is that they are less interactive than a lecture. Therefore, you are encouraged to bring up any questions you may have during our weekly group meeting or during office hours.

Course Material

There is no official textbook for the course. The only required readings are the academic papers we will discuss every week. The papers will be posted on *MyCourses* along with some supporting material. Here is a list of books that could be helpful:

- *The Winner's Curse: Paradoxes and Anomalies of Economic Life*, by Richard Thaler. A collection of articles compiled over the author's career.
- *Making Better Decisions: Decision Theory in Practice*, by Itzhak Gilboa. The author is known for his rigorous yet intuitive exposition on the foundations of decision theory.
- *Predictably Irrational*, by Dan Ariely. Well written and offers great perspective from the point of view of a psychologist.
- *Behavioral Decision Making*, by George Wright. More rigorous than required for the level of this class, but very detailed
- *Behavioral Decision Theory*, by Kazuhisa Takemura. Very detailed, but is aimed at readers who have a stronger mathematics background than this class requires
- *Behavioral Economics*, by Masao Ogaki and Saori C. Tanaka. Good undergrad level textbook.

- *Advances in Behavioral Economics*, edited by Colin F. Camerer, George Loewenstein, and Matthew Rabin. A collection of articles written by some of the biggest contributors to the field of behavioural economics.

Note that electronic versions of some of these books are available to you for free through the McGill library or by using their VPN. All you need to do is install the VPN and then you will have access JSTOR and SpringerLink. Visit www.mcgill.ca/library/services/connect for more details.

Requirements

Prerequisites: The prerequisites for this class are ECON-208 and ECON-209. Calculus is not a prerequisite, but you will be expected to learn how to manipulate simple polynomial, exponential and logarithmic functions and their first derivatives. Also, some notions of probability and statistics will be used, in particular, we will use expected utility, Bayes rule and interpret linear regressions. These will be explained during the course when needed, but it would be useful for you to review these concepts ahead of time.

Participation: There will 4 meeting times per week, all during planned lecture time. You are expected to attend the meeting you are assigned to and participate in the discussion about the paper. Your participation will go to 10% of your final grade. In order to get those marks, you are expected to attend the weekly zoom meeting, be prepared with talking points about the assigned reading. I understand that you have other courses and may have to miss meetings occasionally. Therefore absences will not be counted against you until you have missed more than four meetings.

Problem Sets: During the semester, I will assign 8 problem sets. You will be given 7 days to complete each of them. They will test your understanding of the academic papers and the videos posted on *MyCourses*. The problem sets will count for 50% of your final grade. You are expected to complete all problem sets, but only your best 7 of the 8 you have completed will be counted. All 7 of them will have an equal weight towards your final grade. These are individual assignments and sharing your answers will be considered plagiarism.

Research Paper: Between the 2nd and 3rd week, you will be assigned a group of 4-5 with which you will work on a research paper. This paper will go towards 40% of your final grade and will be divided into three parts: (i) Research Proposal (5%), (ii) Literature review (10%) and (iii) Final paper submission (25%). This is a group assignment and everyone in the group will receive the same grade. More details will be given to you during the term.

Tentative Outline

Here is a tentative list of subjects we will be discussing in this course:

- Prospect Theory
- Bounded Rationality
- Mental Accounting
- Non-Expected Utility
- Ellsberg Paradox
- Allais Paradox
- Time discounting
- Social preferences
- Fairness
- Loss Aversion
- Winner's curse

- Ambiguity aversion
- Behavioural Game Theory
- Ultimatum game
- Dictator game
- Equity Premium Puzzle
- Evolutionary Psychology

McGill Policy Statement

Extraordinary Circumstances Statement:

In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.

Copyright of lectures Statement:

All slides, video recordings, lecture notes, etc. remain the instructor's intellectual property. As such, you may use these only for purposes of your own learning (and research, with proper referencing/citation). You are not permitted to disseminate or share these materials; doing so may violate the instructor's intellectual property rights and could be cause for disciplinary action.

Lecture/Conference/Seminar Recording Statement:

By enrolling in a remote course, you accept that fixed sessions will be recorded. You must consent to being recorded if you attend a lecture or participate in a component of a course that is being recorded. You will be notified through a pop-up box in Zoom if a lecture or portion of a class is being recorded. If you are not comfortable being in a class that is recorded, you may decide to not take part by logging off Zoom. Students who log off will be able to later watch the video recording in MyCourses.

For pedagogical reasons and for the enrichment of the experience of all students, attendance may be monitored and/or active participation may be expected or required during fixed (synchronous) class time. As such, you may be asked to turn on your camera and audio. If you do not have the necessary resources (e.g., adequate Internet bandwidth or equipment) to do so, inform your instructor at the beginning of term so appropriate accommodations can be made.

In addition to the recording of your image and voice, your name (or preferred name) may be displayed on screen, and your instructor may call your name during the lecture. As such, this personal information will be disclosed to classmates, whether during the lecture or in viewing the recording. By remaining in classes that are being recorded, you accept that personal information of this kind may be disclosed to others, whether during the lecture or when viewing the recording.

Etiquette Statement:

The University recognizes the importance of maintaining teaching spaces that are respectful and inclusive for all involved. To this end, offensive, violent, or harmful language arising in contexts such as the following may be cause for disciplinary action: 1. Username (use only your legal or preferred name) 2. Visual backgrounds 3. "Chat" boxes To maintain a clear and uninterrupted learning space for all, you should keep your microphone muted throughout your class, unless invited by the instructor to speak. You should follow instructor's directions about the use of the chat function on remote learning platforms.