Behavioral and Experimental Economics

Behavioral economics attempts to make economics a more relevant and powerful science of human behavior by integrating insights from psychology and the social sciences into economics. Experimental economics adapts methods developed in the natural sciences to study economic behavior. Experiments are valuable in testing to what extent the integration of insights from other disciplines into economics is necessary and fruitful.

Behavioral and Experimental Economics is a vibrant field of research in economics and sheds new light on many old and important issues in economics. The field has received wide recognition in recent years, for example by the award of the Nobel Prize in Economics 2002 to Daniel Kahneman and Vernon Smith (the Nobel Prize winners Reinhard Selten 1994, Elinor Ostrom in 2009, and Alvin Roth 2012 have also importantly contributed to experimental economics; the winners George Akerlof 2001 and Robert Shiller 2013 have contributed to Behavioral Economics). The field is rapidly growing. This course can therefore not provide a comprehensive overview but concentrates on selected topics instead.

The course addresses the following questions:

- What are the advantages and limitations of experimental economics?
- How important are deviations from the assumptions of full rationality and strict self-interest in determining outcomes of economic interaction?

It is argued that identifying individual-level “anomalies” is not sufficient to demonstrate their economic and social importance. Instead, it must be analyzed how institutions mitigate and multiply these anomalies. A broad range of institutions, including markets, bargaining and voting is discussed.

Requirements: A sound knowledge of microeconomics and game theory is required.

Successful completion of this course earns students 7.5 ECTS credits.

Grading: a) participation in experiments and analysis of experimental data is required for admission to final exam, b) 100% final exam (2 hours). The assessment language is English.

a) Participating in all demonstration experiments is an essential element of this course. However, you are not expected to prepare these experiments. You earn a “pass” grade if you are present (see schedule), are attentive and make “reasonable” choices during the experiment.

Students are invited to work on assignments relating to the experiments. Students provide a rough analysis after each experimental session and answer specific questions concerning the experiment. Knowledge of the literature is not expected at this stage (we will talk about the experiments in the lecture). Maximum length of a paper: 4 pages text (not counting graphs, tables, see separate guidelines for more details). Students work in groups (of 2 or) 3. Papers are graded as “pass” or “fail” and one “pass” paper is required for admission to the final exam.

b) The final exam covers the content of the entire lecture (2 hours, closed book, English). Place and date of the exam to be announced.
Schedule

Lectures are held on weekdays **10:00-13:00** at CSS (lecture hall CSS 7-0-34), starting Monday, July 24. There are no lectures on days with experiments. Lecture notes will be posted briefly before each lecture. The lecture notes summarize selected papers and address issues raised in the assignments. The exam will follow the lecture notes in level and depth of the materials covered.

Experiments are held at the Laboratory for Experimental Economics CSS 05-0-34, 10:00-13:00. **Please show up on time.** You are not expected to prepare these experiments in any way.

The assignments (questions and the data to be analyzed), readings and other materials are posted on my webpage [http://homepage.univie.ac.at/jean-robert.tyran/Teaching/CPH_Summer/home_lecture.htm](http://homepage.univie.ac.at/jean-robert.tyran/Teaching/CPH_Summer/home_lecture.htm). You are supposed to think about the issues and look at the data for yourself. There is no need to know the literature at this point. Please send your assignments as a pdf file to me ([jean-robert.tyran@univie.ac.at](mailto:jean-robert.tyran@univie.ac.at)). Mind the deadlines.

Deadlines for handing in assignments are marked in **bolditalics**, dates for experiments in **bold** below.

**Week 1**

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>July 24</td>
<td>Introduction</td>
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<tr>
<td><strong>July 25</strong></td>
<td>Experiments I (location: Øster Farimagsgade 5, room 05-0-34)</td>
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<td>Hand in assignment 1 by <strong>July 28</strong>, 10h, by e-mail to me</td>
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<tr>
<td>July 26</td>
<td>Introduction</td>
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<td>July 27</td>
<td>Markets</td>
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<td><strong>July 28</strong></td>
<td>Experiments II</td>
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<td>Hand in assignment 2 by <strong>August 2</strong>, 10h, by e-mail to me</td>
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**Week 2**

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<thead>
<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>July 31</td>
<td>Loss aversion</td>
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<tr>
<td>August 1</td>
<td>Biases in probability judgments</td>
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<td>August 2</td>
<td>Strategic complementarity and coordination</td>
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<td>August 3</td>
<td>Money illusion</td>
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<td><strong>August 4</strong></td>
<td>Experiments III</td>
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<td>Hand in assignment 3 by <strong>August 10</strong>, 10h, by e-mail to me</td>
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**Week 3**

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<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>August 7</td>
<td>Money illusion / Fairness</td>
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<td>August 8</td>
<td>Fairness / Voting</td>
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<td>August 9</td>
<td>Voting</td>
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<td>August 10</td>
<td>Public Goods</td>
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<td>August 11</td>
<td>Public Goods / Q&amp;A time</td>
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August 15  Exam
Readings

Papers marked with * are required readings. These will be extensively discussed in the lectures and can be covered in the final exam at the level discussed in my lectures. You are expected to read these papers but not to understand them in all details (except those discussed in class). However, I expect you to understand all concepts mentioned in class even if I do not explain them (again) in detail. For example, if I discuss an experiment on competitive markets and mention the 1st theorem of welfare economics, I expect you to know what this theorem says.

Papers marked with (*) will be extensively discussed in the lecture but are unpublished papers, i.e. no materials beyond the lecture notes are available for exam preparation.

References marked with # are recommended reading. These references provide background information.

The remaining (non-marked) papers will only be mentioned or briefly discussed during the course (and are relevant for the exam only to the extent I discuss them) or may serve as “complementary reading” for those who want to delve more deeply into the literature.

Some readings will be made available at “Teaching Materials” on my homepage. Details will be provided in the first lecture.

Introduction


**Competitive Markets**


**Prospect Theory, Loss Aversion, WTA/WTP-Disparity**


**Biases in Probability Judgments**


**Strategic Complementarity, Coordination and Expectations**


**The Economics of Money Illusion**


**Fairness, Trust and Institutions**


### Issues in Public Economics and Collective Choice


Cooperation and the Provision of Public Goods


