**ECON2013**

**Behavioral Economics**

This course aims to teach students some techniques of behavioral economics, classical economics, and compare the two approaches. It focuses on the principles and basic models of decision-making used by both streams of economists, as well as their consequences.

<table>
<thead>
<tr>
<th>Mode of Delivery</th>
<th>On campus</th>
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<tbody>
<tr>
<td><strong>Prerequisites</strong></td>
<td>To enrol in this course you must have successfully completed 24 units of any courses.</td>
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<tr>
<td><strong>Incompatible Courses</strong></td>
<td>Not applicable</td>
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<tr>
<td><strong>Co-taught Courses</strong></td>
<td>Not applicable</td>
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<tr>
<td><strong>Course Convener:</strong></td>
<td>Simon Grant</td>
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</tbody>
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**Phone:** 5 8688  
**Email:** simon.grant@anu.edu  
**Office hours for student consultation:** Thursday 2:00-3:30pm or by appointment  
**Relevant administrator** Nicole Millar  
**Phone:** 5 0384  
**Email:** enquiries.rse@anu.edu  
**Tutor(s) (optional)** TBD

**SEMESTER 2**  
2017
COURSE OVERVIEW

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

Assessment Summary

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Value</th>
<th>Due Date</th>
<th>Date for Return of Assessment</th>
<th>Linked Learning Outcomes (optional)</th>
</tr>
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<tbody>
<tr>
<td>1. Problem sets</td>
<td>25%</td>
<td>See course schedule below</td>
<td>1 week after due date for handing in.</td>
<td>1, 2, 3 &amp; 4.</td>
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<td>2. Midsemester exam</td>
<td>25%</td>
<td>Wk 7 or Wk 8</td>
<td></td>
<td>1, 2, 3 &amp; 4.</td>
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<td>3. Final exam</td>
<td>50% or 75%*</td>
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<td>1, 2, 3 &amp; 4.</td>
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Research-Led Teaching
The lecturer is a user and developer of behavioral models and applications in his own research. As a consequence, students will be exposed to the use of behavioural models in current economic research.

Feedback
Staff Feedback
It is hoped that the lectures will involve a lot of discussion, questions and answers. We will provide timely grading and return of the fortnightly problems sets so that the students know how they have done on one piece of assessment before the next piece of assessment is due. There will be a review of the mid-semester exam (in tutorial time) and thus feedback to the class as whole.

Student Feedback
ANU is committed to the demonstration of educational excellence and regularly seeks feedback from students. One of the key formal ways students have to provide feedback is through Student Experience of Learning Support (SELS) surveys. The feedback given in these surveys is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching, and opportunities for improvement.

For more information on student surveys at ANU and reports on the feedback provided on ANU courses, go to
  http://unistats.anu.edu.au/surveys/selt/students/ and
  http://unistats.anu.edu.au/surveys/selt/results/learning/

Policies
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/

Students are expected to have read the Academic Misconduct Rule before the commencement of their course.

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

Recommended Resources
Erik Angner, A course in behavioral economics, 2nd edition, PALGRAVE MACMILLAN, 2016

COURSE SCHEDULE
Unless otherwise stated, all chapter references are from Angner (2016).
<table>
<thead>
<tr>
<th>Week</th>
<th>Summary of Activities</th>
<th>Assessment</th>
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<tbody>
<tr>
<td>0</td>
<td>Chapter references below refer to Angner (2016) <em>A course in behavioral economics, 2nd edition.</em></td>
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</table>
| 1    | **0. Introduction**  
A. Origins of behavioral economics – Chapter 1.2  
B. Methods – Chapter 1.3  
**I. Choice Under Certainty**  
A. Rational Choice – Chapter 2 |  |
| 2    | **I. Choice Under Certainty** (continued)  
B. Opportunity costs, sunk costs, coherent arbitrariness and context effects  
– Chapter 3.2, 3.3 & 3.4  
C. Loss aversion, Anchoring & Adjustment, Choice Overload  
– Chapter 3.5 & 3.6  
D. Framing effects, bundling & mental accounting – Chapter 7.2 & 7.3 | **Problem Set 1 due.** |
| 3    | **II. Judgement Under Risk and Uncertainty**  
A. Probability theory – Chapter 4.2, 4.3  
B. Conditional probability, Total Probability, Bayes’s Rule and Bayesian updating – Chapter 4.4, 4.5 & 4.6 |  |
| 4    | **II. Judgement Under Risk and Uncertainty** (continued)  
C. Conjunction & disjunction fallacies, representativeness heuristic  
– Chapter 5.3  
D. Representativeness and other heuristics and biases – Chapter 5.2, 5.4, 5.5 & 5.6 |  |
| 5    | **III. Choice Under Risk and Uncertainty**  
A. Rational choice under uncertainty – Chapter 6 | **Problem Set 2 due.** |
| 6    | **III. Choice Under Risk and Uncertainty** (continued)  
B. The Allais and Ellsberg problems, probability weighting, prospect theory and multiple priors – Chapter 7.4, 7.5 & 7.6 |  |
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<tr>
<th>Week</th>
<th>Section</th>
<th>Topic</th>
<th>Notes</th>
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<tr>
<td>7</td>
<td>IV.</td>
<td>Inter-temporal Choice</td>
<td>Problem Set 3 due</td>
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<tr>
<td></td>
<td>A.</td>
<td>The exponential discounted utility model – Chapter 8</td>
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<tr>
<td></td>
<td>B.</td>
<td>Evidence Against the EDU model</td>
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<tr>
<td>8</td>
<td>IV.</td>
<td>Inter-temporal Choice (continued)</td>
<td>Midsemester exam</td>
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<td></td>
<td>C.</td>
<td>Hyperbolic discounting – Chapter 9.2 &amp; 9.3</td>
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<td></td>
<td>D.</td>
<td>Temptation and Self-Control – See references from Lecture Slides</td>
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<td></td>
<td>E.</td>
<td>Misprediction and miswanting – Chapter 9.5</td>
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<td>9</td>
<td>V.</td>
<td>Strategic Interaction</td>
<td>Problem Set 4 due</td>
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<td></td>
<td>A.</td>
<td>A very(!) brief introduction to game theory – Chapter 10</td>
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<td>10</td>
<td>V.</td>
<td>Strategic Interaction (continued)</td>
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<td></td>
<td>B.</td>
<td>Models of social preferences: distributional preferences and face-saving concerns – Chapter 11.2</td>
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<td></td>
<td>C.</td>
<td>Intentions-based social preferences – Chapter 11.3</td>
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<td></td>
<td>D.</td>
<td>Boundedly rational Strategic reasoning – Chapter 11.4</td>
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<tr>
<td>11</td>
<td>VI.</td>
<td>Applied behavioral economics</td>
<td>Problem Set 5 due</td>
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<td></td>
<td>A.</td>
<td>Social norms and behavioral change (Guest lecture by Professor Kate Reynolds, Research School of Psychology)</td>
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<td></td>
<td>B.</td>
<td>Behavioral welfare economics – Chapter 12.2</td>
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<tr>
<td>12</td>
<td>VI.</td>
<td>Applied behavioral economics (continued)</td>
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<td></td>
<td>C.</td>
<td>Assessing behavioral economics – Chapter 12.3</td>
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<td></td>
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<td>Examination period</td>
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ASSESSMENT REQUIREMENTS

The ANU is using Turnitin to enhance student citation and referencing techniques, and to assess assignment submissions as a component of the University's approach to managing Academic Integrity. For additional information regarding Turnitin please visit the ANU Online website.

Students may choose not to submit assessment items through Turnitin. In this instance you will be required to submit, alongside the assessment item itself, copies of all references included in the assessment item.

As a further academic integrity control, students may be selected for a 15 minute individual oral examination of their written assessment submissions.

Any student identified, either during the current semester or in retrospect, as having used ghost writing services will be investigated under the University's Academic Misconduct Rule.

Assessment Tasks

Assignment submission
Offline Submission: 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 that can be downloaded from https://www.rse.anu.edu.au/media/720171/Assignment-Cover-Sheet.pdf. Please keep a copy of your answers to the assignment for your records.

Extensions and penalties
Extensions and late submission of assessment pieces are covered by the Student Assessment (Coursework) Policy and Procedure.

If you need an extension, you must request it in writing on or before the due date. If you have documented and appropriate medical evidence that demonstrates you were not able to request an extension on or before the due date, you may be able to request it after the due date.

Please note that, in general, 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.

Returning assignments
The graders will endeavour to return your assignments one week after the submission date and before the submission deadline for the following assignment.

Scaling

Your final mark for the course will be based on the raw marks allocated for each of your assessment items. However, your final mark may not be the same number as produced by that formula, as marks may be scaled. Any scaling applied will preserve the rank order of raw marks (i.e. if your raw mark exceeds that of another student, then your scaled mark will exceed the scaled mark of that student), and may be either up or down.
**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.

**Tutorial Seminar Registration**

Tutorial signup for this course will be done via the Wattle website. Detailed information about signup times will be provided on Wattle or during your first lecture. When tutorials are available for enrolment, follow these steps:

1. Log on to Wattle, and go to the course site
2. Click on the link “Tutorial enrolment”
3. On the right of the screen, click on the tab “Become Member of…..” for the tutorial class you wish to enter
4. Confirm your choice

If you need to change your enrolment, you will be able to do so by clicking on the tab “Leave group…..” and then re-enrol in another group. You will not be able to enrol in groups that have reached their maximum number. Please note that enrolment in ISIS must be finalised for you to have access to Wattle.

**SUPPORT FOR STUDENTS**

The University offers a number of support services for students. Information on these is available online from [http://students.anu.edu.au/studentlife/](http://students.anu.edu.au/studentlife/)