

# Modeling Decisions and Markets

Academic year 2018 – 2019

Instructor: Filippo Pavesi

LIUC University

Hours of lecture: 15 hours

## Objectives

The course provides theoretical and empirical tools to improve students' understanding of the behavioral approach to decision making processes. Behavioral economics and experimental economics are modern fields of research that highlight and seek to rationalize the main discrepancies observed in economic choices. In particular, we will focus on four main topics: subjects' choices in risky situations, subjects' attitude to solve typical coordination problems and applications of behavioral economics to organizations. In some lectures we will implement a "pen and paper" experiment and discuss the corresponding results by looking at the existing literature.

## Syllabus

Hours	Topic
3	Introduction: why behavioral economics? What is experimental economics?
3	Risk choices and prospect theory
3	Coordination problems and focal points
3	Behavioral Economics of Organization
3	Economics meets Psychology: Nudging

## Material

The main references are:

Handbook of Experimental Economics, 1997, J. H. Kagel and A. E. Roth (eds), Princeton University Press. Ch. 1, 3, 8.3.

Handbook of Behavioral Economics, Foundations and Applications - Volume 1, Elsevier, October 2018, In: D. Bernheim, S. DellaVigna, and D. Laibson (eds.),

Chapter 4: Behavioral Corporate Finance (Malmendier)

Chapter 6: Behavioral Industrial Organization (Paul Heidhues and Botond Koszegi)

Behavioral Economics and Its Applications, In: P. Diamond and H. Vartiainen (eds.), Princeton University Press, March 2007.

Chapter 7: Behavioral Economics of Organizations (Camerer and Malmendier).

Additional references (besides those contained in the bibliography of the main references):

Anderson, L. R. and Holt, C. A. (2008). Information Cascade Experiment. In *Handbook of Experimental Economics Results* (Vol.1. Ch. 39).

Barberis, N. C. 2013. Thirty years of prospect theory in economics: A review and assessment. *Journal of Economic Perspectives*, 27(1), 173-96.

Bordalo, Pedro, Nicola Gennaioli, and Andrei Shleifer. 2013. "Salience and Consumer Choice." *J.P.E.* 121 (October): 803–43.

Camerer, Colin, George Loewenstein, and Martin Weber. 1989. "The Curse of Knowledge in Economic Settings: An Experimental Analysis." *Journal of Political Economy*, 97 (October): 1232–54.

Della Vigna, Stefano. 2009. Psychology and Economics: Evidence from the Field. *Journal of Economic Literature* 47 (2): 315–72.

Goel A. and Anjan Thakor. 2010. Do Envious CEOs Cause Merger Waves?, *Review of Financial Studies*, 23 (2), 487-517.

Guiso, Luigi, Paola Sapienza, and Luigi Zingales. 2004. "The Role of Social Capital in Financial Development." *American Economic Review*, 94 (3): 526-556.

Kaur, Supreet, Michael Kremer, and Sendhil Mullainathan. 2015. Self-Control at Work. *Journal of Political Economy*. 123 (December): 1227–77.

Lamont, Owen A., and Richard H. Thaler. 2003. Can the Market Add and Subtract? Mispricing in Tech Stock Carve-outs. *Journal of Political Economy*. 111 (April): 227–68.

Levy, G. and R. Razin. 2015 Does polarization of opinions lead to polarization of platforms? The case of correlation neglect, *Quarterly Journal of Political Science*, Vol. 10(3), pp 321-355.

Thaler, Richard H., and Shlomo Benartzi. 2004. Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving. *Journal of Political Economy* 112(1), pt. 2 (February): S164–S187.

## **Exam**

The evaluation process consists of preparing an essay (and presentation) on one of the topics covered during lectures. Deadline: June 21, 2019.

## **Calendar**

May 2019: 7, 13, 16, 21, 27, from 11am – 2pm

## **Contacts**

At the end of classes and by appointment. Email: [fpavesu@liuc.it](mailto:fpavesu@liuc.it)