

ECON 215H: Behavioral Economics

Daniel Martin (daniel@martinonline.org)

Motivation: Standard economic theory postulates that individual decisions are the product of perfectly rational agents. A substantial body of literature documents that these assumptions are often inaccurate, and that individuals display systematical departures from the standard paradigm. Behavioral economics documents these “biases” and incorporates them into alternative models of decision-making and strategic interaction. In this course, we offer an overview of some of the most active lines of research in this field. We will provide evidence (from the lab and field) on individual departures from the standard economic paradigm, analyze these phenomena with rigorous formal models, and discuss how these biases impact economic decision-making.

Tentative lecture topics:

1) Introduction to Behavioral Economics

- Deeper dive reading: Thaler, R. H. (2016). Behavioral economics: Past, present, and future. *American Economic Review*, 106(7), 1577-1600.
- Deeper dive reading: Kahneman, D. (2003). Maps of bounded rationality: Psychology for behavioral economics. *American Economic Review*, 93(5), 1449-1475.

2) Belief Updating

- Deeper dive reading: Benjamin, D. J. (2019). Errors in probabilistic reasoning and judgment biases. *Handbook of Behavioral Economics: Applications and Foundations* 1, 2, 69-186.
- Deeper dive reading: Esponda, I., Oprea, R., & Yuksel, S. (2023). Seeing what is representative. *Quarterly Journal of Economics*, 138(4), 2607-2657.

3) Updating with AI Advice

- Core reading: Agarwal, N., Moehring, A., Rajpurkar, P., & Salz, T. (2023). *Combining human expertise with artificial intelligence: Experimental evidence from radiology* (No. w31422). National Bureau of Economic Research. Latest version [here](#).

4) Belief Updating with Imprecise Information

- Core reading: Dominiak, A., Kovach, M., & Tserenjigmid, G. (2022). Minimum distance belief updating with general information. Latest version [here](#).

5) Overconfidence/Miscalibration

- Core reading: Moore, D. A., & Healy, P. J. (2008). The trouble with overconfidence. *Psychological review*, 115(2), 502.

6) Empirical applications

- Core reading: Jin, G. Z., Luca, M., & Martin, D. (2022). Complex disclosure. *Management Science*, 68(5), 3236-3261.
- Core reading: Caplin, A., Deming, D. J., Li, S., Martin, D. J., Marx, P., Weidmann, B., & Ye, K. J. (2024). The ABC's of Who Benefits from Working with AI: Ability, Beliefs, and Calibration (No. w33021). National Bureau of Economic Research.

Evaluation: Students are evaluated on several elements:

- 1) Engagement: Quality of participation in class.
- 2) Reading: Thoughtful reading of required papers.
- 3) Brainstorming: Several short “thought exercises” throughout class.
- 4) One of the following:
 - a. Paper idea: Paper idea closely related to class topics.
 - b. Referee report: Referee report on an assigned paper.
 - c. Presentation: Presentation on an assigned paper.

Lecture notes: I will aim to send lecture slides to the class before each session.

Text: There is no textbook for this course – we will discuss papers. I will send you a list of relevant papers before each class session, some optional (deeper dive) and some required (core).

Papers can be very tedious to read, and I have found the following approach helpful:

- If a theory paper, start with the building blocks of the model
- If an experimental paper, start with the experimental design
- Then read the paper's introduction, and identify the main contribution
- Given this, locate and understand the most important tables and results

When reading a paper, you should ask:

- A. What is the question the paper attempts to answer?
- B. What is the authors' answer to the question?
- C. How did the authors arrive at that answer?
- D. (Bonus) Why should we care about this question?
- E. (Bonus) What does this paper contribute to the literature?