

# Econ 442: Behavioral Economics, Fall 2022

## Section 2

**Instructor:** Rich Patterson  
2121 WVB  
422-7837  
rich\_patterson@byu.edu

**TA:** Nate Tollett  
natetollett.nt26@gmail.com

**Office Hours:** M/W 12:45-2:30 PM

**Office Hours:** TBD

**Meeting Time:** M/W 9:30-10:45 AM

**Classroom:** B119 MARB

**Course Description.** Behavioral economics applies psychological insights into economic decision-making. This course will review the standard (neo-classical) model of economic decision-making, introduce behavioral models that make different predictions than the standard model, and examine evidence that evaluates predictions made by behavioral models.

**Course Purpose.** This course will help students become familiar with behavioral models of economic decision making and the evidence supporting these models. Excellent students will be able to understand and apply behavioral economic models to decision-making processes. The skills developed in this course are particularly relevant for professions that examine motivations and decision-making (e.g. economic consulting, strategy, marketing, and public policy) and related graduate programs (e.g. economics, political science, public policy, sociology, and business).

**Learning Outcomes.** Students will learn and apply behavioral economic models in this course. This includes:

1. Demonstrating an understanding of economic models including:
  - Standard neo-classical model
  - Prospect theory
  - Present-biased preferences
  - Altruism, fairness, and distributional preferences
  - Inattention
  - Priming and anchoring
  - Law of small numbers and base-rate neglect
  - Projection and attribution bias
  - Overconfidence and ego-utility
2. Reading and understanding contemporary academic literature in behavioral economics.
4. Applying behavioral models in a research proposal project.
5. Applying behavioral models to public policy design.

## Course Schedule

Date	LSN	Topic/Event	Assigned Readings
	<b>Section 1</b>	Methods and Models	
29-Aug	1	Introduction to Behavioral Economics	Misbehaving Chapter 1, pp 3-11
31-Aug	2	Behavioral Economics, & Economic Modeling	Gabaix, Xavier, and David Laibson (2008). "The Seven Properties of Good Models.", pp 1-8
7-Sept	3	Causal Inference Primer	Dague & Lahey (2019) "Causal Inference Methods: Lessons from Applied Microeconomics"
12-Sept	4	Standard vs. Behavioral Models	Rabin "A Perspective on Psychology and Economics" pp 2-21
	<b>Section 2</b>	<b><i>Individual Behavioral Preferences</i></b>	
14-Sept	5	Prospect Theory	(1) Thinking Fast and Slow Chapters 25-26 pp 269-288; Levy (1992) "An Introduction to Prospect Theory"
19-Sept	6	Sunk Cost Fallacy/Endowment Effect	(1) Misbehaving Chapter 8, pp 64-73; (2) Thinking Fast and Slow Chapter 27, pp 290-299; Kahneman, Knetsch, & Thaler (1991) "Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias"
21-Sept	7	Reference Dependent Preferences	(1) Thinking Fast and Slow, Chapter 28, pp 300-309 (2) Ericson & Fuster (2011) "Expectations as Endowments..." pp 1879-1882
26-Sept	8	Framing effects	Thinking Fast and Slow, Chapter 34, pp 361-374
28-Sept	9	Present Biased Preferences 1	(1) Misbehaving Chapters 11-12, pp 85-111  (2) Frederick, Lowenstein, & O'Donoghue (2002). "Time Discounting and Time Preference: A Critical Review" pp 355-368
3-Oct	10	Present Biased Preferences 2	(1) O'Donoghue & Rabin (2015) "Present Bias: Lessons Learned and To Be Learned." How to Change Chapter 2, pp 37-59
5-Oct	11	Commitment Devices	(1) Nudge Chapter 2, pp 49-63; (2) Rogers, Milkman, & Volpp (2014) "Commitment Devices: Using Initiatives to Change Behavior"
	<b>Section 3</b>	<b><i>Social Preferences</i></b>	
10-Oct	12	Altruism	Meier (2007) "A Survey of Economic Theories and Field Evidence of Pro-Social Behavior" pp 1-7
12-Oct	13	Fairness/Reciprocity	(1) Field Evidence of Pro-Social Behavior" pp 7-12 (2) Fehr & Gächter (2000) Fairness and Retaliation: The Economics of Reciprocity" pp. 159-172
17-Oct	14	Fairness/Distributional Preferences	(1) Misbehaving Chapters 14-16, pp 127-155 Fisman, Kuziemko, & Vannuteli (2021) "Distributional Preferences in Larger Groups: Keeping Up with the Joneses and Keeping Track of the Tails" pp 1407-1413

19-Oct	15	Social Pressure	1) How to Change Chapter 7, pp 169-193  (2) Bursztyn & Jensen (2015) “How Does Peer Pressure Affect Educational Investments”
24-Oct	16	Midterm Review	
26-Oct	17	No Class (Midterm)	
	<b>Section 4</b>	<b>Limited Cognition</b>	
31-Oct	18	Two systems	Thinking Fast and Slow Chapters 1-3, pp 20-49
2-Nov	19	Salience/Availability	(1) Thinking Fast and Slow Chapters 12-13 pp. 129-145 Chetty et al., (2009): “Salience and Taxation: Theory and Evidence”
7-Nov	20	Statistical errors I	(Law of Small Numbers) Thinking Fast and Slow Chapter 10, pp 108-119 Benjamin, Rabin, and Collin. (2015) “A Model of Nonbelief in the Law of Large Numbers” pp. 1-5
9-Nov	21	Statistical errors II	(Base Rate Neglect) Thinking Fast and Slow Chapters 14-16, pp 146-174
14-Nov	22	Anchoring/Priming	(1) Thinking Fast and Slow Chapter 11, pp 119-128 Beggs & Graddy (2009) “Anchoring Effects: Evidence from Art Auctions”
16-Nov	23	Projection Bias/Attribution Bias	(1) Loewenstein, O’Donoghue, Rabin (2003) "Projection bias in predicting future utility" (2) Haggag et al., (2021) Attribution Bias in Major Decisions: Evidence from Major Choice at the United States Military Academy”
21-Nov	24	Forgetfulness/Planning Fallacy	(1) How to Change Chapter 4, pp 87-115 Thinking Fast and Slow Chapter 23, pp 245-254
28-Nov	25	Overconfidence/Under-confidence	(1) Thinking Fast and Slow Chapters 19-22, pp 199-244 (2) How to Change Chapter 6 pp 143-168
	<b>Section 5</b>	<b>Behavioral Public Policy</b>	
30-Nov	26	Behavioral Public Policy 1	Nudge Introduction & Chapter 4-5, pp 91-129
5-Dec	27	Behavioral Public Policy 2	Nudge Chapters 6-8, pp 130-176 & Chapter 15 pp 312-334
7-Dec	28	Final Review	

## Course Graded Events

Requirement	Dates	% of Total Grade	Comments
Reading Quizzes	Daily	15	Those who complete and comprehend assigned readings should be able to perform well on the assigned quizzes
Written Homework	HW 1: 14-Sep HW 2: 10- Oct HW 3: 24- Oct HW 4: 30- Nov	15	Homework will test student ability to identify key concepts, solve problems, and think creatively about behavioral economic issues.
Midterm	26- Oct	15	In Testing Center
Study Proposal	Proposal: 21-Nov Final: 5-Dec	20	Groups of 1-3. Idea proposal due Nov 21. Final Draft Due Dec 5.
Term Paper	7-Dec	5	
Class Participation		5	Meet with instructor, participate in class
Final Exam	13-Dec	25	Comprehensive final exam; incorporates topics of methods, behavioral preferences, cognitive limitations, social preferences, and behavioral public policy.

## Assignment Descriptions

- **Reading Quiz Questions:** Readings come from the course textbooks and academic journal articles. You can access articles by connecting to the BYU network and searching on Google Scholar. Missed quizzes cannot be made up and will receive a zero, but a student's bottom 5 quiz scores will be dropped from the total.
- **Class Participation:** Participation points come from meeting with me at least once during the semester, attending class, and responding to questions when asked. If you are uncomfortable with answering questions in class, please contact me.
- **Homework Assignments:** There will be 4 homework assignments in this course. You can work in groups of up to 3 people.
- **Midterm and Final Exam:** Students will take a take-home midterm and final. The purpose of these tests is to evaluate students' understanding of the major economic concepts covered in the class and readings.
- **Study Proposal:** Groups of 1-3. Students will submit a study proposal that includes a (1) *Description of Research question* identifying the question the student would seek to answer, (2) *Background Section* describing the economic theory behind the study design and the relevant research supporting the idea, (3) *Research design* describing how the student would answer the research question, and (4) *Design limitations* describing what limitations the researcher would likely face in applying the results of the study to the broader research question.

- **Policy Proposal:** Groups 1-3. Design a public policy that is motivated by a behavioral model covered in class. Write a 2 page memo describing the policies intentions, how the policy accomplishes those intentions through behavioral economics, and outline the expected consequences of the policy.

**Covid Protocol.** In accordance with [BYU policy](#), getting a vaccine for Covid-19 is highly encouraged in this class. Video recordings of lectures will be available for those who miss class due to legitimate Covid quarantine.

**Required Books.** (1) Kahneman, Daniel. *Thinking, fast and slow*. Macmillan, 2011. (2) Milkman, Katy. *How to Change*. Portfolio/Penguin, 2021. (3) Thaler, Richard H. *Misbehaving: The making of behavioral economics*. WW Norton & Company, 2015. (4) Thaler, Richard H., and Cass R. Sunstein. *Nudge: The Final Edition*. Penguin, 2021.

**Credit Hours.** 3

**Prerequisites.** ECON 388

**Honor Code.** In keeping with the principles of the BYU Honor Code, students are expected to be honest in all of their academic work. Academic honesty means, most fundamentally, that any work you present as your own must in fact be your own work and not that of another. Violations of this principle may result in a failing grade in the course and additional disciplinary action by the university.

Students are also expected to adhere to the Dress and Grooming Standards. Adherence demonstrates respect for yourself and others and ensures an effective learning and working environment. It is the university's expectation that each student will abide by all Honor Code standards. Please call the Honor Code Office at 422-2847 if you have questions about those standards.

**Preventing & Reporting Sexual Misconduct.** In accordance with Title IX of the Education Amendments of 1972, Brigham Young University prohibits unlawful sex discrimination against any participant in its education programs or activities. The university also prohibits sexual harassment—including sexual violence—committed by or against students, university employees, and visitors to campus as outlined in university policy, sexual harassment, dating violence, domestic violence, sexual assault, and stalking are considered forms of “Sexual Misconduct” prohibited by the university.

University policy requires all university employees in a teaching, managerial, or supervisory role to report all incidents of Sexual Misconduct that come to their attention in any way, including but not limited to face-to-face conversations, a written class assignment or paper, class discussion, email, text, or social media post. Incidents of Sexual Misconduct should be reported to the Title IX Coordinator at [t9coordinator@byu.edu](mailto:t9coordinator@byu.edu) or (801) 422-8692. Reports may also be submitted through EthicsPoint at <https://titleix.byu.edu/reportor> or 1-888-238-1062 (24-hours a day).

BYU offers confidential resources for those affected by Sexual Misconduct, including the university's Victim Advocate, as well as a number of non-confidential resources and services that may be helpful. Additional information about Title IX, the university's Sexual Misconduct Policy, reporting requirements, and resources can be found at <http://titleix.byu.edu> or

by contacting the university's Title IX Coordinator.

**Students with Disabilities.** If you have a disability that may affect your performance in this course, you should get in touch with the office of Services for Students with Disabilities (1520 WSC). This office can evaluate your disability and assist the professor in arranging for reasonable accommodations.

**Inappropriate Use of Course Materials.** All course materials (e.g., outlines, handouts, syllabi, exams, quizzes, PowerPoint presentations, lectures, audio and video recordings, etc.) are proprietary. Students are prohibited from posting or selling any such course materials without the express written permission of the professor teaching this course. To do so is a violation of the Brigham Young University Honor Code.

**FHSS Diversity and Inclusion Syllabus Statement.** In the College of Family, Home, and Social Sciences, our classroom participation and behavior are guided by our mission statement<sup>1</sup>, the BYU honor code<sup>2</sup>, and principles of Christian discipleship<sup>3</sup>. It is imperative that we value and respect every person as a child of Heavenly Parents who has divine worth. Consequently, we need to take steps to listen to, learn from, and love one another by striving to consider thoughtfully the opinions of others and use language that is polite, considerate, and courteous even when we strongly disagree. It is essential to create an educational environment that ensures "the gift of personal dignity for every child of God"<sup>4</sup>. This includes embracing one another compassionately and "eliminat[ing] any prejudice, including racism, sexism, and nationalism"<sup>5</sup>. . . regardless of age, personal circumstances, gender, sexual orientation, or other unique challenges."<sup>6</sup> It is vital to delight in individuality and welcome diverse perspectives and experiences as we "work tirelessly to build bridges of understanding rather than creating walls of segregation."<sup>7</sup> To accomplish these goals we seek unity in higher principles of equity, charity, collaboration, and inclusiveness in order to build an environment in which all students, faculty, and staff can participate in, contribute to, and benefit equally from the academic community.

---

<sup>1</sup>"provide an education that helps students become informed citizens and thoughtful leaders who make the communities and families in which we live more just, equitable, and happy."

<sup>2</sup>"[we live] in accordance with the principles of the gospel of Jesus Christ and strive to maintain the highest standards in [our] personal conduct regarding honor, integrity, morality, and consideration of others."

<sup>3</sup>"The Creator of us all calls on each of us to abandon attitudes of prejudice against any group of God's children." President Russell M. Nelson, News Release, 2020; [link](#); [link](#) "he inviteth them all to come unto him and partake of his goodness; and he denieth none that come unto him, black and white, bond and free, male and female; and he remembereth the heathen; and all are alike unto God, both Jew and Gentile." (2 Nephi 26:33)

<sup>4</sup>Elder Jeffrey R. Holland, "A Perfect Brightness of Hope", April, 2020

<sup>5</sup>Elder M. Russell Ballard, "The Trek Continues", October, 2017

<sup>6</sup>President Russell M. Nelson, "The Love and Laws of God", September, 2019

<sup>7</sup>President Russell M. Nelson, "The Love and Laws of God", September, 2019