

Economics and Psychology Departments, LIU Post

## **ECO23/PSY23 Behavioral Economics, Fall 2017**

**Mondays and Wednesdays 2:00 pm – 3:20 pm, Kahn Discovery Center HM109**

**Instructor: Udayan Roy**

**Course's Description:** (from the [Undergraduate Bulletin 2016—2017](#)) This course describes how the use of evidence from psychology can improve the predictive power of standard economic theories. Standard economic theories represent human beings in ways that are often different from the way they actually behave. Evidence suggests that human behavior diverges often from standard notions of economic rationality in predictable ways. Predictions about individual behavior are more accurate and the policies of governments are more effective when this evidence is effectively used. This course is a non-technical introduction to the intersection of psychology and economics.

**Objectives of course and method of presentation:** This course seeks to provide a wide-ranging but non-technical survey of behavioral economics, which is a relatively new but rapidly developing field. Experimental evidence on behavior collected by psychologists and, increasingly, economists will be presented. Observed behavior will be compared and contrasted with the behavior assumed in standard economic theory. The ways in which the predictions of economic theory can be improved by utilizing the available evidence on human behavior will be discussed. The course will also discuss how the combination of economic and psychological theory improves the design of government policies.

**Student Learning Goals:** After taking this course, students should be able to cite evidence on human behavior that represents predictable departures from the assumptions of standard economic theory. Students should also be able to cite examples where the predictions of standard economic theory are improved when psychological principles are incorporated into the theory. Students should be able to show how economic policy can be made more effective by utilizing evidence from psychology.

**Outcomes:** Students should be able to explain the meaning of the following concepts and demonstrate an awareness of the available evidence on them: diversification bias, paradox of choice, placebo effect, peer effects, reciprocity, altruism, availability bias, mental accounting, anchoring, the default bias, narrow framing, dynamic inconsistency, pre-commitment, sunk cost fallacy, projection bias, endowment effect, status quo bias, prospect theory, reference dependence, loss aversion, probability weighting, and

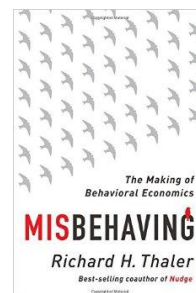
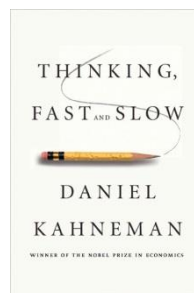
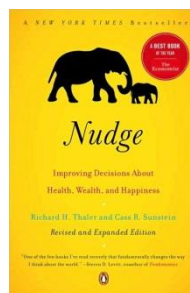
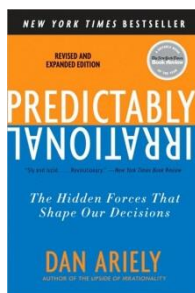
diminishing sensitivity. Students should be able to show how economic policy can be improved by utilizing the evidence on these concepts.

**Course Credits:** This is a 3-credit course. The New York State Education Department (NYSED) requires that for each credit hour there shall be at least 15 hours (of 50 minutes each) of instruction and at least 30 hours of supplementary assignments. Therefore, a 3-credit course shall meet for a minimum of 45 hours, each hour being 50 minutes, for a total of 2,250 minutes and require at least 90 hours of supplementary assignments and readings outside of the lecture. You should expect to spend at least 45 hours on reading (3 hours a week) and 45 hours on homework assignments (3 hours a week). Therefore, overall, you should expect to spend 135 hours on this course.

**Prerequisites:** There are no formal prerequisites for this course.

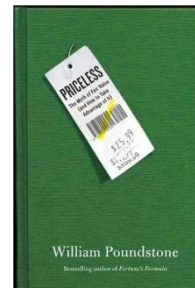
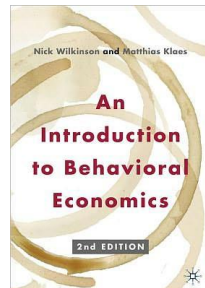
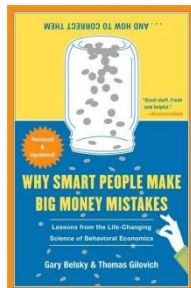
**Course's Required Textbooks:** I will rely heavily on the following three books:

- *Predictably Irrational: The Hidden Forces That Shape Our Decisions* by Dan Ariely, Harper Perennial, 2010, ISBN13 978-0-06-135324-6. (A highly entertaining and informative best-seller.)
- *Nudge: Improving Decisions About Health, Wealth, and Happiness* by Richard H. Thaler and Cass R. Sunstein, Penguin, 2009, ISBN 978-0-14-311526-7. (Slightly harder than Ariely's book, but a deeper and more policy oriented best-seller.)
- *Thinking, Fast and Slow* by Daniel Kahneman, Farrar, Straus and Giroux, 2011, ISBN 978-0-374-27563-1. (A non-technical account of behavioral economics by a psychologist who won the Nobel Memorial Prize in economics for pioneering behavioral economics. This book is an instant classic.)
- *Misbehaving: The Making of Behavioral Economics* by Richard H. Thaler, W. W. Norton & Company, 2015, ISBN 978-0393080940. (A personal and lucid account of the birth of behavioral economics from one of the subject's pioneers.)



**Supplementary Reading:** Here are a few other books that I will use in my lectures but will not require you to read:

- *Why Smart People Make Big Money Mistakes and How to Correct Them: Lessons from the Life-Changing Science of Behavioral Economics* by Gary Belsky and Thomas Gilovich, Simon & Schuster, 2010, ISBN 1439163367, ISBN13 978-1439163368. (A highly entertaining book, written by a highly-regarded Cornell psychology professor (Gilovich) and a seasoned journalist (Belsky).)
- *An Introduction to Behavioral Economics*, second edition, by Nick Wilkinson and Matthias Klaes, Palgrave Macmillan, 2012, ISBN 978-0-230-29146-1. (A challenging, broad, and deep discussion of behavioral economics.)
- *Behavioral Economics* by Edward Cartwright, Routledge, New York, NY, 2011, ISBN 978-0-415-57312-2. (Another challenging and exhaustive text, not unlike Wilkinson's book.)
- *Priceless: The Myth of Fair Value* by William Poundstone, Hill and Wang, 2010, ISBN 080909469X, ISBN13 978-0809094691. (Another highly entertaining and informative introduction to behavioral economics.)



**Examinations and Grading:** There will be two midterms and a final. In preparing the course grade I will use the following weights: 20% for your score in the first midterm, 20% for your score in the second midterm, 40% for your score in the final, and 20% for your scores in some homework assignments. Using these weights, I will calculate each student's overall percentage score. The overall percentage scores will then be scaled to yield each student's letter grade. Attendance will matter too, as described below.

The *first midterm* will be held on Wednesday, October 4, the *second midterm* will be held on Wednesday, November 8, and the *final* will be held during Finals Week (on either Monday, December 18 or Wednesday, December 20). The final will be cumulative, in the sense that it will be based on all material discussed in the course.

**Blackboard Homework Assignments:** The *homework* assignments may consist of computer-graded online quizzes within the Blackboard course management system. You will have to log on at <http://blackboard.liu.edu> and then go to the Blackboard page for this course to find and complete the online homework assignments. Use the *firstname.lastname* format as your username. The Blackboard password is the same as your My.LIU password; see <https://my.liu.edu/> for further details.

If you do not have a My.LIU password, please go to <http://csi.liu.edu/myLIU/> for further instructions. If you are still unable to log on to Blackboard, please contact the *Center for Student Information*. You could email them at [StudentCenter@LIU.edu](mailto:StudentCenter@LIU.edu) or call them at 516 299 3967 or go to their offices in Hillwood Commons. In general, for all technology-related issues, please take a look at the Center for Student Information web site <http://csi.liu.edu>. Specifically, please see <http://csi.liu.edu/blackboard/students.aspx> for tutorials on the use of Blackboard.

**Attendance Policy:** The best possible grade (BPG) that you could get will depend on the number of your absences; see the accompanying table for details. You will be marked absent if you miss ten minutes or more of a lecture or if you are not attentive in class. You must not sign the attendance sheet if you are more than ten minutes late. Signing another person's name on the attendance sheet amounts to forgery and will not be tolerated.

Absences	BPG
6, 7	B+
8, 9	B
10, 11	B-
12, 13	C+
14 or more	D

No make-up tests will be given for the Midterm or the Final unless there are compelling medical reasons supported by a valid doctor's note. In case you cannot take a test at the scheduled time, you (or someone representing you) must inform me of the reason(s) not later than twenty-four hours after the test. Ideally, I should be told *before* the test. The reason(s) you give for missing a test will affect my decision on whether or not you should get a make-up test but it will not affect your BPG. *Homework assignments completed late will not count.*

**General Classroom Decorum:** Students must make sure that their actions have *no adverse effects* on the ability of other students to learn and do their work. Students must behave *honorably* when taking quizzes and tests and report dishonorable behavior to the instructor when they see such behavior. When in the classroom, students must not engage in any activity that is not directly part of the course. In particular, students must not use computers, phones, or other entertainment devices in the classroom. Students who feel sleepy should leave the classroom and sleep elsewhere.

**Students with Disabilities:** The Americans with Disabilities Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for person with disabilities Students with special needs as addressed by the ADA who need assistance should contact The Learning Support Center, located in the lower level of Post Hall (516-299-3164) immediately. Please meet with me early in the semester if you require accommodations. I will make reasonable efforts to accommodate your special needs.

For more information, please visit The Learning Support Center at <http://www.liu.edu/CWPost/StudentLife/Services/LSC.aspx>. The Learning Support Center provides a full range of support services, educational strategies, and opportunities to help student achieve their personal, academic and vocational goals.

**Course Calendar:** The following is a very tentative schedule for the course. I will do my best to stick to it. Nevertheless, I expect to stray from this schedule on a regular basis.

Lecture	Date	Day	ECO23/PSY23	Comments
1	6-Sep	Wed		Add/Drop and Late Registration during September 6--19
2	11-Sep	Mon		
3	13-Sep	Wed		
4	18-Sep	Mon		
5	20-Sep	Wed		
6	25-Sep	Mon		
7	27-Sep	Wed		
8	2-Oct	Mon		
9	4-Oct	Wed	Midterm 1	No classes on Columbus Day, October 9
10	11-Oct	Wed		Registration Begins for Spring 2018 on October 9
11	16-Oct	Mon		
12	18-Oct	Wed		
13	23-Oct	Mon		
14	25-Oct	Wed		
15	30-Oct	Mon		
16	1-Nov	Wed		
17	6-Nov	Mon		
18	8-Nov	Wed	Midterm 2	Last Day to Opt P/F or Partial Withdrawal is November 10
19	13-Nov	Mon		
20	15-Nov	Wed		
21	20-Nov	Mon		Thanksgiving Recess during November 22--26
22	27-Nov	Mon		
23	29-Nov	Wed		

24	4-Dec	Mon		
25	6-Dec	Wed		
26	11-Dec	Mon		Last Lecture; Last Day for Full Term Withdrawal
	12-Dec	Tue		Study/Snow Days/Alternate Class Days
	13-Dec	Wed		Study/Snow Days/Alternate Class Days
	18-Dec	Mon		Final (to be announced)
	20-Dec	Wed		Final (to be announced)
	21-Dec	Thu		Final Exam Make Up Day; Term Ends

**Contact Information:** My *office* is at Room 206, Hoxie Hall (across from the Bookstore). My *office phone number* is (516) 299 2405/2321. My *e-mail address* is [uroy@liu.edu](mailto:uroy@liu.edu). My *own Web site* is at <http://myweb.liu.edu/~uroy/>. My *mailing address* is: Udayan Roy, Economics Department, LIU Post, Brookville, NY 11548.

**Office Hours:** My *office hours* are: 12:30 pm — 2:00 pm and 5:00 pm – 5:30 pm on Mondays and Wednesdays. For any *other* hours, a prior appointment will be necessary. Please stop by whenever you need any help with your coursework. During my office hours, you may also contact me by Skype; my Skype ID is *udayan-eco*.

**Course's Web Site:** The course's Web site is at <http://myweb.liu.edu/~uroy/eco23psy23/index.html>.

Have a great semester!