

ECO331: WINTER 2013  
BEHAVIOURAL AND EXPERIMENTAL ECONOMICS

1 THE BIG PICTURE

**Section L0101.** Tuesdays, MP134: Lecture: 2:00 PM – 4:00 PM; Lab: 4:00 PM – 5:00 PM.

**Section L5101.** Tuesdays, SS1069: Lecture: 5:00 PM – 7:00 PM; Lab: 7:00 PM – 8:00 PM.

**Contacting me.**

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Office:	Max Gluskin House (150 St. George Street), Room 330
Office Hours:	Thursdays, 11:00 AM – 12:00 PM Thursdays, 10:00 AM – 11:00 PM (by appt. <a href="http://meetme.so/rgazzale">http://meetme.so/rgazzale</a> )
email:	<a href="mailto:robert.gazzale@utoronto.ca">robert.gazzale@utoronto.ca</a>

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**Texts and Materials.**

- **Required:** Articles, book chapters and handouts as posted on the Portal.

**Teaching Assistant.** Margarita Pivovarova ([rita.pivovarova@utoronto.ca](mailto:rita.pivovarova@utoronto.ca))

**Website.** UofT's Learning Portal (Blackboard): <https://portal.utoronto.ca>

**Assessments.**

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	<b>Date</b>	<b>Length</b>	<b>Weight</b>
Lab Participation	All Year	N/A	7%
Lecture Participation	All Year	N/A	8%
Term Test	Tuesday, February 12, 2013	2 hours	20%
Term Paper	See below	N/A	25%
Final Examination	TBA	3 hours	40%

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2 THE DETAILS

This is kind of a weird course.

Behavioural economics might best be described as a movement: an effort to incorporate the insights of other social science disciplines (psychology in particular) to appropriately modify and augment the economist's traditional assumptions about human behaviour and preferences. It is motivated by the fact that while models based on traditional assumptions often do rather well in predicting actual outcomes, non-trivial anomalies have been identified which might be reconciled by more "realistic" assumptions about human preferences and behaviour. Experimental economics is defined by method, namely the use of controlled, human-subject experiments. This course concentrates on the intersection of behavioural and experimental economics. Namely, we (mostly) look at controlled experiments which seek to uncover and quantify systematic ways in which people deviate from traditional assumptions.

Even limiting our attention to the intersection of behavioural and experimental economics, the list of possible topics to include in this class is absurdly long. My topic-selection mechanism might best be described as arbitrary and capricious, with perhaps some method to my madness.

### 2.1 Goals of the Course

I have two overarching goals for this course.

1. **Behavioural Economics** Understand a set of insights from behavioural economics with an eye towards recognizing how these insights improve the economist's ability to explain and predict real-world behaviour.
2. **Experimental Economics** Understand the methods of modern experimental economics with an eye to assessing the results of human-subject experiments.

### 2.2 Academic Integrity

Academic integrity is one of the cornerstones of the University of Toronto. It is critically important both to maintain our community which honours the values of honesty, trust, respect, fairness and responsibility and to protect you, the students within this community, and the value of your degree. According to Section B of the University of Toronto's Code of Behaviour on Academic Matters (<http://www.utoronto.ca/govcncl/pap/policies/behaveac.html>), which all students are expected to know and respect, it is an offence for students:

- To obtain unauthorized assistance on any assignment.
- To provide unauthorized assistance to another student. This includes showing another student completed work (e.g., an answer in a test).
- To falsify or alter any documentation required by the University. This, includes, but is not limited to, doctors notes.
- To alter and submit for re-marking any course assignment (e.g., a test).
- To obtain under false pretence a doctors note.
- To use or possess an unauthorized aid in any test or exam (e.g., a cellphone).
- To continue writing when the time is up in any test or exam.

There are other offences covered under the Code, but these are by far the most common. Please respect these rules and the values which they protect.

### 2.3 Website

This course will make heavy use of the UofT's Learning Portal (a.k.a. Blackboard). You are responsible for checking it regularly. Content includes:

- Announcements;
- Copies of the lecture slides;
- Links to required articles, book chapters and handouts.

### 2.4 Lectures

**First and foremost, you are expected to come to class having done the required readings.**

During lecture, I may project "PowerPoint" slides. I encourage you to print them and bring them to lecture. You will notice that while a set of slides represents a good overview of a topic and contains many of the important definitions, many of the details are missing. During the lecture, we shall fill in the missing details, resulting in "marked-up" slides. **I will not make available the marked-up slides.**

### 2.5 Evaluations: Lecture and Laboratory Participation

The lecture participation grade will be determined by completion of a series of ‘response cards’. These response cards will be randomly assigned during class, and you complete the response card during the class in which it is distributed. Response cards will be graded very coarsely, with zero points awarded to students who do not complete the card in class. Your lowest response-card score will be dropped.

Laboratory sessions are a vital portion of this course. In these sessions, you will participate in a series of classic experiments. Lab sessions will be announced at least 48 hours ahead of time will take place in approximately 8 out of the 12 possible weeks. You are permitted to miss one laboratory session without penalty. **Each additional absence will result in the loss of 1 mark from your final grade.**

*What if I miss a response card or experiment because I am hospitalized?* If you planned ahead for this possibility, this is no problem because this is the first one you missed. If you previously missed one and find yourself hospitalized for one later in the semester, I am going to guess that you will regret having missed that first one . . .

**Bottom Line:** Assume you are going to get sick later in the semester.

### 2.6 Evaluations: Term Paper

While full details of the Term Paper will be provided later in the course, I provide a general outline here. The writing assignment will be a short essay of approximately 1,000 words (about four pages double spaced) applying tools and results from this course to an assigned question. The topic will be assigned by the end of January. The assignment will be staged with two submissions and an intervening peer assessment.

- The First Submission is due Friday March 8, 2013, 11:00 AM.
- Students will then be assigned three classmates’ papers to read and provide constructive feedback and suggestions (using a form/rubric that we provide).
- The deadline for providing this peer assessment is Tuesday March 19, 2013, 11:00 AM.
- Students will then have until Tuesday March 26, 2013 at 11:00 AM to submit the Final Submission that incorporates any useful suggestions or insights from the peer review process. Included in this submission will be a short reflection on the peer reviews received, as well as an explanation of any other revisions made between the first and second submissions.
- The weights for final grade for the Term Paper will be:
  - 30% The First Submission;
  - 20% The Peer Assessments provided for other papers;
  - 40% The Final Submission; and
  - 10% The Reflection Piece, a “self assessment” of the explanation of the revisions to the first draft.
- **N.B.**<sup>1</sup> Other students’ assessments of the First Submission do not count towards the Term Paper grade.

We will be using the software PeerScholar for the implementation of this assignment. The entire exercise is conducted electronically (online).

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<sup>1</sup>Short for the Latin *nota bene*, meaning “note well”.

### 2.6.1 *Plagiarism*

Plagiarism is a potentially serious problem in writing assignments. There will be more details concerning the definition of plagiarism, advice on how to avoid it, and the associated penalties when we discuss the assignment in more detail. The term paper must be submitted for review through <http://turnitin.com/>. Instructions will be provided along with the details to the assignment. It is important to underscore that the Department of Economics prosecutes all cases of plagiarism vigorously. This includes unintentional plagiarism. Ignorance of the rules of plagiarism is specifically excluded as a defence. University disclaimer concerning Turnitin.com:

Normally, students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site.

### 2.6.2 *Extensions*

Nope. No extensions will be granted due to illness, computer problems, or any other excuse, as ample time has been provided to complete the project.

### 2.6.3 *Late Penalties*

This project entails peer review and cooperation with the entire class. There is no tolerance for failure to submit work on time.

- First Submissions submitted after 11:00 AM on March 9 will be considered late. Late First Submissions will not be accepted, and students will receive a grade of zero for the First Submission and Reflection Piece portions of the Term Paper grade.
- Late Peer Assessments will not be graded. Students who miss the deadline of 11:00 AM March 19 will receive zero for the peer assessment component of the grade.
- For Final Submissions, a late penalty of 10 percentage points (out of 100) per calendar day will be applied, starting at the 11:00 AM deadline on March 26: papers submitted between 0 and 24 hours late will receive a 10% penalty, between 24 and 48 hours a 20% penalty, and so on. No papers will be accepted after 11:00 AM April 2, and a grade of zero will be awarded to such papers.

## 2.7 *Evaluations: Term Test and Final Exam*

If a concept, skill, result or topic is addressed in lectures or the required readings, it is testable.

**N.B.** My choosing to devote scarce lecture time to a topic or concept is a good indication I find it important. Things I find important have a nasty habit of appearing on tests and exams. While this set of facts **in no way** rules out the inclusion of material not covered in lectures, it may be helpful in prioritizing your preparation.

### 2.7.1 *Evaluations: Make-Up Test*

If you **must** miss the midterm:

1. I must be contacted before the test; and

2. I will need a documented, valid excuse. An example of a documented, excused absence is an original note from a doctor that states you are **physically unable to attend the test**. The only accepted note is a fully completed University of Toronto Medical Certificate completed by a qualified medical doctor (e.g., not an acupuncturist, chiropractor, or other health care professional) and with the doctor's OHIP registration number.

If both of the above are satisfied, you will be permitted to take the make-up midterm on Friday, March 1, 2013 at 9:00 AM. A student writing neither midterm will receive a zero and will be advised to drop the course.

**N.B.** Students who miss the final exam must petition the Faculty of Arts and Science for permission to write a deferred examination in the summer.

### *2.8 Evaluations: Marking and Appeals*

If after receiving your graded term paper or test, you believe that there is a major error in grading, the following procedure will apply:

- Your request must be in writing, with a detailed explanation. The explanation must go beyond "I think I deserve a higher grade." With direct reference to i) your paper and the grading rubric, or ii) your term test and the suggested solutions, you must explain why your score should be higher.
- Appeals must be submitted by email to me no later than one week after the grades are released. The specific deadline will be announced on the Portal when the assignments are graded.
- The *entire* paper or test will be regraded, which may result in either an increase or decrease of your grade.

### *2.9 Communication*

I will make important announcements in lectures, on the Portal, or via e-mail to the class. We obtain your UofT e-mail address from the Portal.

I will endeavor to respond to email within 24 hours on weekdays. Include the course code in the subject of your message (ECO331) and use your utoronto email address. These practices will help ensure that your message does not get stuck in my spam filter and subsequently deleted. If I do not respond within 48 hours please re-send the message or contact me in class or office hours. Please note that I will ignore any request for information easily available in this syllabus or on the Portal.

### *2.10 Doing Well in ECO331*

Do the readings before lecture. Attend lectures and laboratory sessions. Seriously.

## 3 TENTATIVE SCHEDULE

Our tentative schedule is below. The reading list is also, at this point, highly tentative. Any modifications will be widely announced.

### 1. Introduction (Jan. 8)

- **Thaler, Richard H.**, "From Homo Economicus to Homo Sapiens," *Journal of Economic Perspectives*, Winter 2000, 14 (1), 133–141.

### 2. Experiment Design; Internal & External Validity (Jan. 15)

- **Friedman, Daniel and Shyam Sunder**, *Experimental Methods: A Primer for Economists*, Cambridge University Press, 1994, pp. 1–84.
- **Roth, Alvin E.**, “Introduction to Experimental Economics,” in John H. Kagel and Alvin E. Roth, eds., *The Handbook of Experimental Economics*, Princeton, NJ: Princeton University Press, 1995, pp. 1–23.
- **Gneezy, Uri, Muriel Niederle, and Aldo Rustichini**, “Performance in Competitive Environments: Gender Differences,” *Quarterly Journal of Economics*, August 2003, *118* (3), 1049–1074.
- **Niederle, Muriel and Lise Vesterlund**, “Do Women Shy Away From Competition? Do Men Compete Too Much?,” *Quarterly Journal of Economics*, August 2007.

### 3. A Failure to Optimize I: A Smörgåsbord (Jan. 22)

- **Kahneman, Daniel**, *Thinking, Fast and Slow*, Farrar, Straus and Giroux, 2011, chapters 1–3, pp. 19–49.
- **Iyengar, Sheena S. and Mark R. Lepper**, “When Choice is Demotivating: Can One Desire Too Much of a Good Thing,” *Journal of Personality and Social Psychology*, 2000, *79* (6), 995–1006.
- **Danziger, Shai, Jonathan Levav, and Liora Avnaim-Pesso**, “Extraneous factors in judicial decisions,” *Proceedings of the National Academy of Sciences*, 2011, *108* (17), 6889–6892.
  - **Weinshall-Margel, Keren and John Shapard**, “Overlooked factors in the analysis of parole decisions,” *Proceedings of the National Academy of Sciences*, 2011, *108* (42), E833.
  - **Danziger, Shai, Jonathan Levav, and Liora Avnaim-Pesso**, “Reply to Weinshall-Margel and Shapard: Extraneous factors in judicial decisions persist,” *Proceedings of the National Academy of Sciences*, 2011, *108* (42), E834.
- **Spears, Dean**, “Economic Decision-Making in Poverty Depletes Behavioral Control,” *The B.E. Journal of Economic Analysis & Policy*, December 2011, *11* (1).
- **Ariely, Dan, Uri Gneezy, George Loewenstein, and Nina Mazar**, “Large Stakes and Big Mistakes,” *The Review of Economic Studies*, 2009, *76* (2), 451–469.

### 4. A Failure to Optimize II: People and Probabilities (Jan. 29)

- **Tversky, Amos and Daniel Kahneman**, “Judgment under Uncertainty: Heuristics and Biases,” *Science*, 1974, *185* (4157), 1124–1131.
- **Barberis, Nicholas, Andrei Schleifer, and Robert Vishny**, “A Model of Investor Sentiment,” *Journal of Financial Economics*, 1998, *49* (3), 307–343.

### 5. Prospect Theory and the Endowment Effect (Feb. 5)

- **Kahneman, Daniel and Amos Tversky**, “Prospect Theory: An Analysis of Decision under Risk,” *Econometrica*, March 1979, *47* (2), 263–292.
- **Kahneman, Daniel, Jack L. Knetsch, and Richard H. Thaler**, “Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias,” *Journal of Economic Perspectives*, Winter 1991, *5* (1), 193–206.
- \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, “Experimental Tests of the Endowment Effect and the Coase Theorem,” *Journal of Political Economy*, December 1990, *98* (6), 1325–1348.

- **Plott, Charles R. and Kathryn Zeiler**, “The Willingness to Pay–Willingness to Accept Gap, the ‘Endowment Effect,’ Subject Misconceptions, and Experimental Procedures for Eliciting Valuations,” *American Economic Review*, June 2005, 95 (3), 530–545.
- **Ericson, Keith M. Marzilli and Andreas Fuster**, “Expectations as Endowments: Evidence on Reference-Dependent Preferences from Exchange and Valuation Experiments,” *Quarterly Journal of Economics*, forthcoming.
- **Bateman, Ian, Alistair Munro, Bruce Rhodes, Chris Starmer, and Robert Sugden**, “A Test of the Theory of Reference-Dependent Preferences,” *Quarterly Journal of Economics*, May 1997, 112 (2), 479–505.

#### 6. Midterm Test (Feb. 12)

#### 7. More Framing (Feb. 26)

- **Thaler, Richard H.**, “Mental Accounting Matters,” *Journal of Behavioral Decision Making*, 1999, 12 (3), 183–206.
- **Rabin, Matthew**, “Diminishing Marginal Utility of Wealth Cannot Explain Risk Aversion,” in Daniel Kahneman and Amos Tversky, eds., *Choices, Values and Frames*, Cambridge University Press, 2000, chapter 11, pp. 202–208.
- **Fehr, Ernst and Lorenz Goette**, “Do Workers Work More if Wages Are High? Evidence from a Randomized Field Experiment,” *The American Economic Review*, 2007, 97 (1), 298–317.
- **Gneezy, Uri and Jan Potters**, “An Experiment on Risk Taking and Evaluation Periods,” *The Quarterly Journal of Economics*, 1997, 112 (2), 631–645.
- **Thaler, Richard H., Amos Tversky, Daniel Kahneman, and Alan Schwartz**, “The Effect of Myopia and Loss Aversion on Risk Taking: An Experimental Test,” *The Quarterly Journal of Economics*, 1997, 112 (2), 647–661.
- **Benartzi, Shlomo and Richard H. Thaler**, “Myopic Loss Aversion and the Equity Premium Puzzle,” *The Quarterly Journal of Economics*, February 1995, 110 (1), 73–92.

#### 8. Do we even know what we want? (Mar. 5)

- **Kahneman, Daniel, Peter P. Wakker, and Rakesh Sarin**, “Back to Bentham? Explorations of Experienced Utility,” *Quarterly Journal of Economics*, May 1997, 112 (2), 375–405.
- **Ariely, Dan, George Loewenstein, and Drazen Prelec**, ““Coherent Arbitrariness”: Stable Demand Curves Without Stable Preferences,” *Quarterly Journal of Economics*, February 2003, 118 (1), 73–105.
- **Gilbert, Daniel T., Elizabeth C. Pinel, Timothy D. Wilson, Stephen J. Blumberg, and Thalia P. Wheatley**, “Immune neglect: A source of durability bias in affective forecasting,” *Journal of Personality and Social Psychology*, 1998, 75 (3), 617–638.
- **Loewenstein, George and Daniel Adler**, “A Bias in the Prediction of Tastes,” *The Economic Journal*, 1995, 105 (431), 929–937.

#### 9. Present Bias & Bounded self control (Mar. 12)

- **Cartwright, Edward**, “Behavioral Economics,” Vol. 16 of *Routledge advanced texts in economics and finance*, Routledge, 2011, chapter Choosing when to act, pp. 135–168.

- **Kirby, Kris N. and R.J. Herrnstein**, “Preference Reversals due to Myopic Discounting of Delayed Reward,” *Psychological Science*, March 1995, *6* (6), 83–89.
- **Ashraf, Nava, Dean Karlan, and Wesley Yin**, “Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines,” *Quarterly Journal of Economics*, May 2006, *121* (2), 635–672.
- **DellaVigna, Stefano and Ulrike Malmendier**, “Paying Not to Go to the Gym,” *American Economic Review*, June 2006, *96* (3), 694–719.
- **Ariely, Dan and Klaus Wertenbroch**, “Procrastination, Deadlines and Performance: Self-control by Precommitment,” *Psychological Science*, 2002, *13* (3), 219–224.

#### 10. Other-regarding preferences (Mar. 19)

- **Andreoni, James and John Miller**, “Giving According to GARP: An Experimental Test of the Consistency of Preferences for Altruism,” *Econometrica*, March 2002, *70* (2), 737–753.
- **Hoffman, Elizabeth, Kevin A. McCabe, and Vernon L. Smith**, “Social Distance and Other-Regarding Behavior in Dictator Games,” *The American Economic Review*, June 1996, *86* (3), 653–660.
- **Forsythe, Robert, Joel L. Horowitz, N. E. Savin, and Martin Sefton**, “Fairness in Simple Bargaining Experiments,” *Games and Economic Behavior*, May 1994, *6* (3), 347–369.
- **Fehr, Ernst and Simon Gächter**, “Cooperation and Punishment in Public Goods Experiments,” *The American Economic Review*, September 2000, *90* (4), 980–994.
- **Berg, Joyce, John W. Dickhaut, and Kevin A. McCabe**, “Trust, Reciprocity, and Social History,” *Games and Economic Behavior*, July 1995, *10* (1), 122–142.

#### 11. Topics in other-regarding preferences (Mar. 26)

- **Gneezy, Uri and Aldo Rustichini**, “A Fine Is a Price,” *Journal of Legal Studies*, January 2000, *29* (1), 1–17.
- **Gneezy, Uri and Aldo Rustichini**, “Pay Enough or Don’t Pay at All,” *Quarterly Journal of Economics*, August 2000, *115* (3), 791–810.
- **Akerlof, George A. and Rachel E. Kranton**, “Identity and the Economics of Organizations,” *Journal of Economic Perspectives*, Winter 2005, *19* (1), 9–32.
- **Chen, Yan and Sherry Xin Li**, “Group Identity and Social Preferences,” *American Economic Review*, March 2009, *99* (1), 431–457.
- **Gneezy, Uri and John A. List**, “Putting Behavioral Economics to Work: Testing for Gift Exchange in Labor Markets Using Field Experiments,” *Econometrica*, 2006, *74* (5), 1365–1384.

#### 12. Interpreting Experiments; Paternalism (Apr. 2)

- **List, John A.**, “Does Market Experience Eliminate Market Anomalies?,” *Quarterly Journal of Economics*, February 2003, *118* (1), 41–71.
- **List, John A.**, “On the Interpretation of Giving in Dictator Games,” *The Journal of Political Economy*, June 2007, *115* (3), 482–493.
- **Further readings to be determined**