Course Information

**Course Overview:** This course studies the ways that economic and psychological factors jointly influence behavior. We will analyze choices that economic actors make in the lab and in the field and we will explain these choices with economic models. We will enrich the standard economic model by incorporating psychological mechanisms, including limited rationality and limited self-control. Applications that we study will include salience, inference, strategic behavior, consumption, savings, and persuasion. This course is intended for students interested in research. The course will use the standard mathematical and empirical methods employed in economic research.

**Meeting time and location:** Wednesdays 1-4, Harvard Hall 103. The class will start promptly at 1:07.

**Instructors:**
- David Laibson
  Littauer M–12, dlaibson@harvard.edu, 6-3402
  Office hours: email edepuy@fas.harvard.edu for an appointment

- Andrei Shleifer
  Littauer M-9, ashleifer@harvard.edu, 5-5046
  Office hours: email lchaves@fas.harvard.edu for an appointment

- Matteo Paradisi
  Littauer 15-B, mparadisi@g.harvard.edu
  Section: Tuesdays 5-6 (Room TBD)
  Office Hours: TBD (4 hours in weeks with a problem set; 2 hours otherwise)

**Course web site:** [https://canvas.harvard.edu/courses/9623](https://canvas.harvard.edu/courses/9623) Syllabus, problem sets, problem set solutions, readings, and handouts will be available on the course web site.

**Prerequisites:** multivariable calculus, game theory, and microeconomic theory.
Collapsed Course Outline:

January 24  Introduction and Methodology (David)
January 31  Heuristics and Biases (Andrei)
February 7  Stereotypes (Andrei)
February 14  Prospect Theory (Andrei)
February 21  Salience Theory (Andrei)
February 28  Attention (Xavier Gabaix)
March 7  Advertising and Persuasion (Andrei)
March 14  Spring Break
March 21  Intertemporal Choice Theory (David)
March 28  Intertemporal Choice Empirics (David)
April 4  Mental Accounting (Jesse Shapiro)
April 11  Household Finance and Choice Architecture (David)
April 18  Behavioral Mechanism Design and Paternalism (David)
April 25  Biosocial Science: Neuroeconomics and Genoeconomics (David)

Grading: Grades will be calculated from two weighted components: problem sets (1/4), and final exam (3/4). Students who have taken 2010a/b and 2010c/d (or are currently taking these course) may also opt into a paper option that replaces the final exam. In this case, the paper deadline is set by you, but it may be no later than September 1. Tell Emily Sall this deadline by March 1.

Problem Sets: We will assign six problem sets over the course of the semester.

Policy on Lateness: Late problem sets will receive half credit.

Student collaboration: Students may collaborate on problem sets, but they should acknowledge their collaborators and describe the extent of their collaboration at the top of the relevant assignments. While collaboration is allowed, directly copying someone else's work is not. Problem sets may be discussed, but they should be written up independently. Copying someone else's work can result in a requirement to withdraw from the University.
**Recommended texts:** You should buy the texts that match your specific research interests.


Camerer, Loewenstein, and Rabin. *Advances in Behavioral Economics*

Congdon, Kling and Mullainathan, *Policy and Choice*.

Gilovich, Griffin, and Kahneman. *Heuristic and Biases: The Psychology of Intuitive Judgment*


Kahneman, Slovic, and Tversky, *Judgment under Uncertainty: Heuristics and Biases*


Thaler, *Advances in Behavioral Finance*


Thaler and Sunstein, *Nudge*, 2008


**Readings:** The papers on the following pages are recommended readings that reflect what is discussed in class (or is good background reading for that lecture). You should also come to us if you are looking for additional suggestions on topics that particularly interest you.
Course Outline:

January 24
Introduction and Methodology (David)


Kahneman, Thinking, Fast and Slow, Farrar, Straus, Giroux 2011.


January 31
Heuristics and Biases (Andrei)

Kahneman, Thinking, Fast and Slow, Farrar, Straus, Giroux 2011.


February 7
Stereotypes (Andrei)


February 14
Prospect Theory (Andrei)


February 21
Salience Theory (Andrei)


Frydman, Cary and Mormann, Milica Milosavljevic, “The Role of Salience and Attention in Choice under Risk: An Experimental Investigation” (January 4, 2018).


February 28
The sparsity-based approach to behavioral economics: micro to macro (Xavier Gabaix)


March 7
Advertising and Persuasion (Andrei)

Sendhil Mullainathan, “Thinking through categories,” mimeo.


March 14 - Spring Break
March 21

Intertemporal Choice Theory (David)


March 28
Intertemporal Choice Empirics (David)


Beshears, John, James J. Choi, Christopher Harris, David Laibson, Brigitte C. Madrian, and Jung Sakong (2011).“Self Control and Liquidity: How to Design a Commitment Contract.”


Schilbach, Frank (2017). "Alcohol and Self-Control: A Field Experiment in India."

April 4 (Jesse Shapiro)

Mental Accounting
April 11
Household Finance, Choice Architecture and Nudges (David)


Baicker et. al., “Behavioral Hazard in Health Insurance”


Choi, James, David Laibson, and Brigitte Madrian. 2009. "Reducing the Complexity Costs of 401(k) Participation Through Quick Enrollment." Developments in the Economics of Aging, David A. Wise, editor. [Click here for nicely typeset text]


Thaler and Sunstein, Nudge, 2008.

April 18
Behavioral Mechanism Design and Paternalism (David)


Beshears, John, James J. Choi, Christopher Harris, David Laibson, Brigitte C. Madrian, and Jung Sakong (2011). “Self Control and Liquidity: How to Design a Commitment Contract.”


Farhi, Emmanuel and Xavier Gabaix (2017), "Optimal Taxation with Behavioral Agents", working paper.


April 25
Biosocial Science: Genoeconomics and Neuroeconomics (David)


Chabris, Christopher F., James J. Lee, Daniel J. Benjamin, Jonathan P. Beauchamp, Edward L. Glaeser, Gregoire Borst, Steven Pinker, and David I. Laibson (2013). “Why Is It Hard to Find Genes that are Associated with Social Science Traits?"


