ECONOMICS 142: Behavioral Economics

Fall 2012   Lectures: M, W, F 12:00 – 12:50pm: Centr 109

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Office: Econ 108   Office Hours: Tuesdays 10:15 – 11:45 am

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The course is divided into two parts. The first half, on behavioral decision theory, studies models in which standard economic rationality assumptions are combined with psychologically plausible assumptions on behavior. We consider whether the new models improve ability to predict and understand choice under uncertainty (and certainty), probabilistic judgment, and intertemporal choice. The second half, on behavioral game theory, studies how players model others' decisions in initial responses to games; and how players learn to predict others' decisions via learning in repeated play of analogous games.

Prerequisites: ECON 109.

Lectures and Problem Sessions:

You are responsible for all the material in the lectures and problem sets. Partial notes will be available on the class webpage before each lecture. I recommend that you print these out beforehand and fill in the missing information. I'll do my best to avoid typos but you're responsible for the correct material. I want you to understand the material instead of simply memorizing it. If you miss a lecture, borrow someone's notes. Problem Sessions are optional but recommended.

Problem Sets:

Problem sets will be available online. We will go over these questions in office hours and during the Problem Sessions. Your best practice for the exams is to try these questions yourself first.

Exams:

Your grade will be determined on the basis of two Midterm Exams (25% each) and the Final Exam (50%). Alternatively your lower midterm will count for 15%; your higher midterm will count for 25% and your final will count for 60%. The method of weighting that results in the highest grade will automatically be chosen at the end of the quarter.

You must get the instructor's permission (in advance if possible) if you miss a midterm. If you miss a midterm for an approved reason the weight for that exam will be placed on the final. If you miss the final exam for a documented, university approved reason (ie., illness, official university trip), you may receive an Incomplete for the class and will then need to make-up the exam during the following quarter. If you miss the final exam for another reason (ie., oversleep) you will receive a zero for the exam. No one will be allowed to start an exam after the first person leaves it.

Midterm 1 will be held in class on Monday, October 22nd. Midterm 2 will be held in class on Friday, November 16th. The final exam will be held on Thursday, December 13th from 11:30am – 2:30pm. If you know in advance that you cannot make an exam, please let me know as soon as possible.

You are only permitted to use pens and pencils, a calculator, a straight edge and a single note card during the exams. The note card can be any size up to 8.5" by 5.5" for the midterms and up to 8.5" by 11" for the final. It may **only** have handwritten notes on both sides. Typed or mechanically reproduced notes are not permitted. Do **not** attach anything to your note card in any way. If your note sheet does not adhere to any of these conditions it may be confiscated during the exam. Additionally a report may be filed with the Academic Integrity Office.

You **cannot** sit next to anyone you studied with during an exam.

Academic dishonesty:

I take academic dishonesty seriously. Any student found guilty of academic dishonesty will earn a failing grade for the course. In addition to this sanction, the Council of Deans of Student Affairs will also impose a disciplinary penalty. For a review of UCSD policy, please see http://www-senate.ucsd.edu/manual/appendices/app2.htm.

Regrade requests:

Regrade requests are only permitted if the entire exam is answered in pen. Regrade requests must be made through a written statement **before** the start of class one week after the exam was first passed back. This deadline is firm! Extensions will only be permitted if you have a documented, university approved reason for missing the entire week after the exam was first passed back. If you request a regrade I may regrade your entire exam and your score could go up, down or stay the same.

Optional/Recommended Text:

Cartwright (2011), *Behavioral Economics*, Routledge. The text is available on Kindle and may be available in other electronic formats.

Preliminary Course Outline:

1. Overview of Behavioral Decision Theory

    - Ch. 1 – 2.

2. Choice under Uncertainty (or Certainty)

    - Classical Expected Utility Model (from Econ 100A).
    - Ch. 2 – 3.

3. Probabilistic Judgment

    - Ch 3.

4. Intertemporal Choice

    - Ch 4.

5. Overview of Behavioral Game Theory

    - Ch 1.

6. Theory and Evidence on Initial Responses to Games

    - Ch 6.

7. Equilibrium Selection via Learning

    - Ch 8.

Very roughly I'm planning to spend about a week and a half, each, on items #2, 3, 4, 6 and 7 in the above outline. All of this is subject to change.