ECON 263

SPRING 2021

Professor Emanuel Vespa Email: evespa@ucsd.edu Office hours: by appointment

Class Meetings

Friday 1pm-4pm @ Econ 200

Evaluation

There are three types of assignments in this class:

- Referee reports: You will have to write 2 referee reports throughout the quarter, which will be discussed in class (we will select papers to referee from the list provided at the end of the syllabus).
- Writing an introduction of a working paper: I will provide you with a working paper excluding the introduction. You will have to write the introduction and we will read your introductions and discuss them in class.
- Research proposal (joint with Econ 262): You are expected to turn in a research proposal at the end of the course. The proposal should be organized like a grant proposal. You are encouraged to talk to your classmates about your research ideas and present your research proposal in groups of 2 (max). During the last week of classes you will have 25 min to present your research project to the class. The idea is to get feedback from your classmates and from myself. You will incorporate any useful feedback you get into a written research proposal that you will hand in to me the day that the final exam is scheduled. If you choose to work with a classmate on your project, you will only have one presentation and one written proposal for both of you.

This class is part of a sequence on behavioral economics (jointly with Economics 262 and Economics 264). Economics 262 is also being taught this quarter and you are encouraged to take it concurrently to have a broader perspective of behavioral economics.

Topics

- 1. A Selected Overview of Strategic-Decision Experiments & Interactions with Theory
- BAZERMAN, M. H., AND W. F. SAMUELSON (1983): "I won the auction but don't want the prize," *Journal of conflict resolution*, 27, 618–634.
- Cox, J. C., B. ROBERSON, AND V. L. SMITH (1982): "Theory and behavior of single object auctions," Research in experimental economics, 2, 1–43.
- Cox, J. C., V. L. SMITH, AND J. M. WALKER (1985): "Experimental development of sealedbid auction theory; calibrating controls for risk aversion," *The American Economic Review*, 75, 160–165.
- _____(1992): "Theory and misbehavior of first-price auctions: Comment," *The American Economic Review*, 82, 1392–1412.
- GRETHER, D. M., AND C. R. PLOTT (1979): "Economic theory of choice and the preference reversal phenomenon," *The American Economic Review*, 69, 623–638.
- HARRISON, G. W. (1989): "Theory and misbehavior of first-price auctions," *The American Economic Review*, 749–762.
- KAGEL, J., AND D. LEVIN (1986): "The winner's curse and public information in common value auctions," *The American Economic Review*, 894–920.
- KAGEL, J. H., R. M. HARSTAD, AND D. LEVIN (1987): "Information impact and allocation rules in auctions with affiliated private values: A laboratory study," *Econometrica*, 1275–1304.
- KAGEL, J. H., AND A. E. ROTH (1992): "Theory and misbehavior in first-price auctions: Comment," *The American Economic Review*, 82, 1379–1391.
- SмITH, V. L. (1962): "An experimental study of competitive market behavior," *Journal of political economy*, 70, 111–137.
 - _____(1976): "Experimental economics: Induced value theory," *The American Economic Review*, 66, 274–279.
- SVORENČÍK, A. (2015): "The experimental turn in economics: a history of experimental economics," University of Utrecht: Utrecht School of Economics Dissertation Series, 29.
 - 2. A Selected Overview of Individual-Decision Experiments & Interactions with Theory
- AZRIELI, Y., C. P. CHAMBERS, AND P. J. HEALY (2018): "Incentives in experiments: A theoretical analysis," *Journal of Political Economy*, 126, 1472–1503.
- BLAVATSKYY, P. R., A. ORTMANN, AND V. PANCHENKO (2020): "Now you see it, now you don't: How to make the Allais Paradox appear, disappear, or reverse," *AEJ Micro (forth-coming)*.

- FUDENBERG, D., W. Y. GAO, AND A. LIANG (2020): "Quantifying the restrictiveness of theories," *Working paper*.
- GILBOA, I., AND D. SCHMEIDLER (1995): "Case-based decision theory," The quarterly Journal of economics, 110, 605–639.
- GRETHER, D. M., AND C. R. PLOTT (1979): "Economic theory of choice and the preference reversal phenomenon," *The American Economic Review*, 69, 623–638.
- HARLESS, D. W., AND C. F. CAMERER (1994): "The predictive utility of generalized expected utility theories," *Econometrica*, 1251–1289.
- KAHNEMAN, D., J. L. KNETSCH, AND R. H. THALER (1990): "Experimental tests of the endowment effect and the Coase theorem," *Journal of political Economy*, 98, 1325–1348.
- KAHNEMAN, D., AND A. TVERSKY (1979): "Prospect Theory: An Analysis of Decision under Risk," *Econometrica*, 47, 263–292.
- Kőszegi, B., AND M. RABIN (2006): "A model of reference-dependent preferences," *The Quarterly Journal of Economics*, 121, 1133–1165.
- NIELSEN, K., AND J. REHBECK (2020): "When Choices are Mistakes," Working paper.
- O'DONOGHUE, T., AND C. SPRENGER (2018): "Reference-dependent preferences," Handbook of Behavioral Economics: Applications and Foundations 1, 1–77.
- RABIN, M. (2000): "Risk Aversion and Expected-utility Theory: A Calibration Theorem," *Econometrica*, 68, 1281–1292.
- Sмітн, V. L. (1989): "Theory, experiment and economics," *Journal of Economic Perspectives*, 3, 151–169.
 - 3. Testing Mechanisms: The Lab and Interactions with Theory
- ALI, S. N., M. MIHM, L. SIGA, AND C. TERGIMAN (2020): "Adverse and Advantageous Selection in the Laboratory," *American Economic Review (forthcoming)*.
- ARAUJO, F. A., S. W. WANG, AND A. J. WILSON (2020): "The times they are a-Changing: Dynamic Adverse Selection in the Laboratory," *Working Paper*.
- BARRON, K., S. HUCK, AND P. JEHIEL (2020): "Everyday econometricians: Selection neglect and overoptimism when learning from others," *Working Paper*.
- CALFORD, E. M., AND T. N. CASON (2021): "Contingent Reasoning and Dynamic Public Goods Provision," Working Paper.
- CHARNESS, G., AND D. LEVIN (2009): "The origin of the winner's curse: a laboratory study," *American Economic Journal: Microeconomics*, 1, 207–36.
- DAL BÓ, E., P. DAL BÓ, AND E. EYSTER (2018): "The demand for bad policy when voters underappreciate equilibrium effects," *The Review of Economic Studies*, 85, 964–998.

- ENKE, B. (2020): "What you see is all there is," The Quarterly Journal of Economics, 135, 1363–1398.
- ESPONDA, I., AND E. VESPA (2014): "Hypothetical thinking and information extraction in the laboratory," *American Economic Journal: Microeconomics*, 6, 180–202.

_____(2020): "Contingent preferences and the sure-thing principle: Revisiting classic anomalies in the laboratory," *Working Paper*.

- EYSTER, E. (2019): "Errors in strategic reasoning," in Handbook of Behavioral Economics: Applications and Foundations, vol 2., 187–259.
- EYSTER, E., AND M. RABIN (2005): "Cursed equilibrium," Econometrica, 73, 1623–1672.
- IVANOV, A., D. LEVIN, AND M. NIEDERLE (2010): "Can relaxation of beliefs rationalize the winner's curse?: An experimental study," *Econometrica*, 78, 1435–1452.
- LI, S. (2017): "Obviously strategy-proof mechanisms," American Economic Review, 107, 3257–87.
- MARTIN, D., AND E. MUNOZ-RODRIGUEZ (2019): "Misperceiving Mechanisms: Imperfect Perception and the Failure to Recognize Dominant Strategies."
- MARTÍNEZ-MARQUINA, A., M. NIEDERLE, AND E. VESPA (2019): "Failures in Contingent Reasoning: The Role of Uncertainty," *American Economic Review*, 109, 3437–74.
- NGANGOUÉ, M. K., AND G. WEIZSÄCKER (2021): "Learning from unrealized versus realized prices," American Economic Journal: Microeconomics, 13, 174–201.
- SCHOTTER, A. (2003): "Decision making with naive advice," American Economic Review, 93, 196–201.

4. Learning

- BARRON, K., S. HUCK, AND P. JEHIEL (2020): "Everyday econometricians: Selection neglect and overoptimism when learning from others," *Working Paper*.
- CAMERER, C., AND T. HUA HO (1999): "Experience-weighted attraction learning in normal form games," *Econometrica*, 67, 827–874.
- CHEUNG, Y.-W., AND D. FRIEDMAN (1997): "Individual learning in normal form games: Some laboratory results," *Games and economic behavior*, 19, 46–76.
- DEKEL, E., D. FUDENBERG, AND D. K. LEVINE (2004): "Learning to play Bayesian games," *Games and Economic Behavior*, 46, 282–303.
- ENKE, B. (2020): "What you see is all there is," The Quarterly Journal of Economics, 135, 1363–1398.
- EREV, I., AND E. HARUVY (2016): "Learning and the economics of small decisions," in The handbook of experimental economics, J Kagel and A. Roth eds., 2, 638–700.

- EREV, I., AND A. E. ROTH (1998): "Predicting how people play games: Reinforcement learning in experimental games with unique, mixed strategy equilibria," *American economic review*, 848–881.
- ESPONDA, I. (2008): "Behavioral equilibrium in economies with adverse selection," American Economic Review, 98, 1269–91.
- ESPONDA, I., AND E. VESPA (2018): "Endogenous sample selection: A laboratory study," *Quantitative Economics*, 9, 183–216.
- FUDENBERG, D., AND D. K. LEVINE (1998): "The theory of learning in games," MIT press.
- FUDENBERG, D., AND E. VESPA (2019): "Learning Theory and Heterogeneous Play in a Signaling-Game Experiment," *American Economic Journal: Microeconomics*, 11, 186–215.
- Ho, T. H., C. F. CAMERER, AND J.-K. CHONG (2007): "Self-tuning experience weighted attraction learning in games," *Journal of economic theory*, 133, 177–198.
- PRASNIKAR, V., AND A. E. ROTH (1992): "Considerations of fairness and strategy: Experimental data from sequential games," *The Quarterly Journal of Economics*, 107, 865–888.
- ROTH, A. E., AND I. EREV (1995): "Learning in extensive-form games: Experimental data and simple dynamic models in the intermediate term," *Games and economic behavior*, 8, 164–212.
- SELTEN, R., AND R. STOECKER (1986): "End behavior in sequences of finite Prisoner's Dilemma supergames A learning theory approach," *Journal of Economic Behavior & Organization*, 7, 47–70.
- STAHL, D. O. (2000): "Rule learning in symmetric normal-form games: theory and evidence," *Games and Economic Behavior*, 32, 105–138.

5. Information and Beliefs

- AGRANOV, M., A. CAPLIN, AND C. TERGIMAN (2015): "Naive play and the process of choice in guessing games," *Journal of the Economic Science Association*, 1, 146–157.
- BÉNABOU, R., AND J. TIROLE (2016): "Mindful economics: The production, consumption, and value of beliefs," *Journal of Economic Perspectives*, 30, 141–64.
- BENJAMIN, D. J. (2019): "Errors in probabilistic reasoning and judgment biases," in Handbook of Behavioral Economics: Applications and Foundations, vol 2., 69–186.
- BORDALO, P., N. GENNAIOLI, AND A. SHLEIFER (2012): "Salience theory of choice under risk," The Quarterly journal of economics, 127, 1243–1285.
- CAPLIN, A., AND M. DEAN (2015): "Revealed preference, rational inattention, and costly information acquisition," *American Economic Review*, 105, 2183–2203.

- CHARNESS, G., R. OPREA, AND S. YUKSEL (2018): "How do people choose between biased information sources? Evidence from a laboratory experiment," *Journal of the European Economic Association*.
- ENKE, B., AND F. ZIMMERMANN (2019): "Correlation neglect in belief formation," *The Review of Economic Studies*, 86, 313–332.
- ESPONDA, I., E. VESPA, AND S. YUKSEL (2020): "Mental Models and Learning: The Case of Base-Rate Neglect," *Working Paper*.
- GIGERENZER, G., AND U. HOFFRAGE (1995): "How to improve Bayesian reasoning without instruction: frequency formats.," *Psychological review*, 102, 684.
- GRETHER, D. M. (1980): "Bayes rule as a descriptive model: The representativeness heuristic," *The Quarterly journal of economics*, 95, 537–557.
- NYARKO, Y., AND A. SCHOTTER (2002): "An experimental study of belief learning using elicited beliefs," *Econometrica*, 70, 971–1005.
- RABIN, M., AND J. L. SCHRAG (1999): "First impressions matter: A model of confirmatory bias," *The quarterly journal of economics*, 114, 37–82.

6. Repeated Games: Recent Contributions

- AOYAGI, M., AND G. FRÉCHETTE (2009): "Collusion as public monitoring becomes noisy: Experimental evidence," *Journal of Economic theory*, 144, 1135–1165.
- DAL Bó, P. (2005): "Cooperation under the shadow of the future: experimental evidence from infinitely repeated games," *American economic review*, 95, 1591–1604.
- DAL BÓ, P., AND G. R. FRÉCHETTE (2018): "On the determinants of cooperation in infinitely repeated games: A survey," *Journal of Economic Literature*, 56, 60–114.
- DAL BÓ, P., AND G. R. FRÉCHETTE (2019): "Strategy Choice in the Infinitely Repeated Prisoner's Dilemma," American Economic Review, 109, 3929–52.
- DUFFY, J., AND J. OCHS (2009): "Cooperative behavior and the frequency of social interaction," *Games and Economic Behavior*, 66, 785–812.
- EMBREY, M., G. R. FRÉCHETTE, AND S. YUKSEL (2018): "Cooperation in the finitely repeated prisoner's dilemma," *The Quarterly Journal of Economics*, 133, 509–551.
- FUDENBERG, D., D. G. RAND, AND A. DREBER (2012): "Slow to anger and fast to forgive: Cooperation in an uncertain world," *American Economic Review*, 102, 720–49.
- SALZ, T., AND E. VESPA (2020): "Estimating dynamic games of oligopolistic competition: An experimental investigation," *The RAND Journal of Economics*.
- VESPA, E., T. WEIDMAN, AND A. J. WILSON (2021): "Testing Models of Strategic Uncertainty: Equilibrium Selection in Repeated Games," *Working paper*.
- VESPA, E., AND A. J. WILSON (2019): "Experimenting with the transition rule in dynamic games," *Quantitative Economics*, 10, 1825–1849.

7. Communication

- AVOYAN, A., AND J. RAMOS (2020): "A road to efficiency through communication and commitment," *Working paper*.
- BLUME, A., E. K. LAI, AND W. LIM (2019): "Mediated Talk: An Experiment," Working paper.
 - (2020): "Strategic information transmission: A survey of experiments and theoretical foundations," *in Handbook of Experimental Game Theory*.
- CAI, H., AND J. T.-Y. WANG (2006): "Overcommunication in strategic information transmission games," *Games and Economic Behavior*, 56, 7–36.
- CHARNESS, G., AND M. DUFWENBERG (2006): "Promises and Partnerships," *Econometrica*, 74(6), 1579–1601.
- LAI, E., W. LIM, AND J. T.-Y. WANG (2015): "An experimental analysis of multidimensional cheap talk," *Games and Economic Behavior*, 91, 114–144.
- SOBEL, J. (2013): "Ten possible experiments on communication and deception," *Journal of Economic Behavior & Organization*, 93, 408–413.
- VESPA, E., AND A. J. WILSON (2016): "Communication with multiple senders: An experiment," *Quantitative Economics*, 7, 1–36.
- WILSON, A. J., AND E. VESPA (2020): "Information transmission under the shadow of the future: An experiment," *American Economic Journal: Microeconomics*, 12, 75–98.

Papers to referee

- AOYAGI, M., G. R. FRÉCHETTE, AND S. YUKSEL (2020): "Beliefs in Repeated Games," Working Paper.
- CALFORD, E. M., AND T. N. CASON (2021): "Contingent Reasoning and Dynamic Public Goods Provision," Working Paper.
- ENKE, B., F. SCHWERTER, AND F. ZIMMERMANN (2020): "Associative memory and belief formation," Working paper.
- FRÉCHETTE, G. R., A. LIZZERI, AND J. PEREGO (2020): "Rules and commitment in communication: An experimental analysis," *Working Paper*.
- GRAEBER, T. (2020): "Inattentive inference," Working paper.
- REES-JONES, A., R. SHORRER, AND C. J. TERGIMAN (2020): "Correlation Neglect in Studentto-School Matching," *Working Paper*.