

ECON 263

SPRING 2023

Professor Emanuel Vespa
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Office hours: by appointment

Class Meetings

Tue-Thu 9:30am-10:50am @ Econ 200

Evaluation

There are three types of assignments in this class:

- Referee reports: You will have to write 1 referee report for: Ba, C., A. Bohren, and A. Imas (2023): “Over- and Underreaction to Information”. The report should be 2-3 pages in length and include a short summary of the paper followed by critiques and suggestions for the authors. It will be due 4/20.
- Presentation: You will be assigned to present one paper from a list presented later in the syllabus. The presentation will take approximately half of the class meeting time.
- Research proposal: 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).

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 sealed-bid 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.
- GREETHER, 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.
- SMITH, 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 (forthcoming)*.
- 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.
- GREETHER, 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.
- KÓSZEGI, 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.
- SMITH, V. L. (1989): “Theory, experiment and economics,” *Journal of Economic Perspectives*, 3, 151–169.

3. COGNITIVE ECONOMICS: CONTINGENT THINKING

- ALI, S. N., M. MIHM, L. SIGA, AND C. TERGIMAN (2020): “Adverse and Advantageous Selection in the Laboratory,” *American Economic Review (forthcoming)*.
- BHARGAVA, S., G. LOEWENSTEIN, AND J. SYDNOR (2017): “Choose to lose: Health plan choices from a menu with dominated option,” *The Quarterly Journal of Economics*, 132, 1319–1372.
- 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.

- CROSON, R. T. (1999): “The disjunction effect and reason-based choice in games,” *Organizational Behavior and Human Decision Processes*, 80, 118–133.
- ESPONDA, I., AND E. VESPA (2014): “Hypothetical thinking and information extraction in the laboratory,” *American Economic Journal: Microeconomics*, 6, 180–202.
- (2023): “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.
- 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.
- NGANGOUE, M. K., AND G. WEIZSÄCKER (2021): “Learning from unrealized versus realized prices,” *American Economic Journal: Microeconomics*, 13, 174–201.
- REES-JONES, A., R. I. SHORRER, AND C. TERGIMAN (2022): “Correlation Neglect in Student-to-School Matching,” *Working Paper*.
- TVERSKY, A., AND E. SHAFIR (1992): “The disjunction effect in choice under uncertainty,” *Psychological science*, 3, 305–310.

4. INFORMATION AND BELIEFS

- BA, C., A. BOHREN, AND A. IMAS (2023): “Over- and Underreaction to Information,” *Working Paper*.
- 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.
- 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., R. OPREA, AND S. YUKSEL (2023): “Seeing What is Representative,” *Working Paper*.

- GIGERENZER, G., AND U. HOFFRAGE (1995): “How to improve Bayesian reasoning without instruction: frequency formats.,” *Psychological review*, 102, 684.
- GREYER, D. M. (1980): “Bayes rule as a descriptive model: The representativeness heuristic,” *The Quarterly journal of economics*, 95, 537–557.
- RABIN, M., AND J. L. SCHRAG (1999): “First impressions matter: A model of confirmatory bias,” *The quarterly journal of economics*, 114, 37–82.
- ZIMMERMANN, F. (2020): “The dynamics of motivated beliefs,” *American Economic Review*, 110, 337–363.

5. LEARNING AND MENTAL MODELS

- ARAUJO, F. A., S. W. WANG, AND A. J. WILSON (2021): “The times they are a-Changing: Dynamic Adverse Selection in the Laboratory,” *American Economic Journal: Microeconomics*, 13, 1–22.
- BARRON, K., S. HUCK, AND P. JEHL (2020): “Everyday econometricians: Selection neglect and overoptimism when learning from others,” *Working Paper*.
- BOHREN, J. A., A. IMAS, AND M. ROSENBERG (2019): “The dynamics of discrimination: Theory and evidence,” *American economic review*, 109, 3395–3436.
- 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.
- 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.
- ESPONDA, I., E. VESPA, AND S. YUKSEL (2023): “Mental Models and Learning: The Case of Base-Rate Neglect,” *Working Paper*.
- 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.

6. ATTENTION AND MEMORY

- BORDALO, P., J. J. CONLON, N. GENNAIOLI, S. Y. KWON, AND A. SHLEIFER (2023): “Memory and probability,” *The Quarterly Journal of Economics*, 138, 265–311.
- BORDALO, P., N. GENNAIOLI, AND A. SHLEIFER (2012): “Salience theory of choice under risk,” *The Quarterly Journal of Economics*, 127, 1243–1285.
- (2013): “Salience and consumer choice,” *Journal of Political Economy*, 121, 803–843.
- (2022): “Salience,” *Annual Review of Economics* (forthcoming).
- GABAIX, X. (2018): “Behavioral Inattention,” *Handbook of Behavioral Economics: Applications and Foundations 1*, 261–343.
- KAHANA, M. J. (2012): *Foundations of human memory*: OUP USA.
- LOEWENSTEIN, G., AND Z. WOJTOWICZ (2023): “The Economics of Attention,” *Working Paper*.

7. NOISY COGNITION AND COMPLEXITY

- ENKE, B., AND T. GRAEBER (2023): “Cognitive uncertainty,” *Quarterly Journal of Economics* (forthcoming).
- ENKE, B., T. GRAEBER, AND R. OPREA (2022): “Confidence, self-selection and bias in the aggregate,” *American Economic Review* (forthcoming).
- FRYDMAN, C., AND L. J. JIN (2022): “Efficient coding and risky choice,” *The Quarterly Journal of Economics*, 137, 161–213.
- NIELSEN, K., AND J. REHBECK (2022): “When choices are mistakes,” *American Economic Review*, 112, 2237–68.
- OPREA, R. (2020): “What makes a rule complex?” *American economic review*, 110, 3913–3951.
- (2022): “Simplicity Equivalents,” *Working Paper*.
- WOODFORD, M. (2020): “Modeling imprecision in perception, valuation, and choice,” *Annual Review of Economics*, 12, 579–601.

8. MODELS AND NARRATIVES

- ANDRE, P., I. HAALAND, C. ROTH, AND J. WOHLFART (2021): “Narratives about the Macroeconomy,” *Working Paper*.
- ELIAZ, K., AND R. SPIEGLER (2020): “A model of competing narratives,” *American Economic Review*, 110, 3786–3816.

- FRÉCHETTE, G., E. VESPA, AND S. YUKSEL (2023): “Extracting Models From Data Sets: An Experiment Using Notes-to-Self,” *Working Paper*.
- GRAEBER, T., F. ZIMMERMANN, AND C. ROTH (2022): “Stories, Statistics, and Memory,” *Working Paper*.
- KENDALL, C. W., AND C. CHARLES (2022): “Causal narratives,” *Working Paper*.
- KENDALL, C. W., AND R. OPREA (2022): “On the Complexity of Forming Mental Models,” *Working Paper*.
- PEARL, J. (2009): *Causality*: Cambridge university press.
- PEARL, J., AND D. MACKENZIE (2018): *The book of why: the new science of cause and effect*: Basic books.
- ROTTMAN, B. M. (2017): “The acquisition and use of causal structure knowledge,” *The Oxford handbook of causal reasoning*, 85–114.
- SPIEGLER, R. (2020): “Behavioral implications of causal misperceptions,” *Annual Review of Economics*, 12, 81–106.

9. REPEATED GAMES (POSSIBLE EXTRA TOPIC #1)

- 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.
- 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.

10. COMMUNICATION (POSSIBLE EXTRA TOPIC #2)

- AVOYAN, A., AND J. RAMOS (2022): “A road to efficiency through communication and commitment,” *American Economic Review* (forthcoming).
- (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.
- LAI, E., W. LIM, AND J. T.-Y. WANG (2015): “An experimental analysis of multidimensional cheap talk,” *Games and Economic Behavior*, 91, 114–144.
- 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.

Tentative Schedule

Date	Topic	Read	Present
04/04	Intro	-	-
04/06	Overview of Strat. Dec. Exp.	-	-
04/11	Overview of Indiv. Dec. Exp.	-	-
04/13	Contingent Thinking	Croson (1999)	-
04/18	Contingent Thinking	Rees-Jones et al. (2022)	-
04/20	Information & Beliefs	-	Ba et al. (2023) Ref Report
04/25	Information & Beliefs	-	Esponda et al. (2023)
04/27	Learning & Mental Models	-	-
05/02	Learning & Mental Models	Araujo et al (2021)	Enke (2020)
05/04	Attention & Memory	-	-
05/09	Attention & Memory	-	-
05/11	Noisy Cognition & Complexity	Enke et al. (2022)	-
05/16	Noisy Cognition & Complexity	-	Frydman and Jin (2022)
05/18	Noisy Cognition & Complexity	-	Oprea (2022)
05/23	Models and Narratives	Kendall and Charles (2022)	-
05/25	Models and Narratives	-	Graeber et al. (2022)
05/30	Possible Extra topic	-	-
06/01	Own Research Presentations	-	-
06/06	Own Research Presentations	-	-
06/08	Own Research Presentations	-	-