

ECO5064S: Behavioural Economics

INSTRUCTOR Malcolm Keswell Econ Bldg 5.19 (*Tel:* 021-650 4876)
INFORMATION Email: malcolm.keswell@uct.ac.za Web site: <https://mkeswell.github.io>

COURSE OBJECTIVES Behavioural economics is a relatively new field within economics. At its core is a strong interdisciplinary approach to modelling economic decision making. Our focus in this course will be to expand on the model of choice covered in the Master's microeconomics courses of the first semester to incorporate two robust empirical findings about economic behaviour: (i) that people are boundedly rational; and (ii) that people frequently behave in other-regarding ways. The topics to be covered are: risk attitudes with bounded rationality (topic 1); risk preferences under exposure to stress and violence (topic 2); rational altruism and altruist punishment (topic 3); trust and social cohesion (topic 4); and emotions and decision making (topic 5).

COURSE PREREQUISITES ECO6007F (Microeconomics II) or equivalent or at the discretion of the Graduate Convenor. Students not registered for an Economics Master's programme will need permission from the graduate convenor.

COURSE REQUIREMENTS

- Assignments (topics 1-2): 20%
- Seminars (topics 3-5): 30%
- Final exam: 50%

READING LIST
*

1. Risk attitudes with bounded rationality

- [1] Herbert A Simon. A behavioral model of rational choice. *The quarterly journal of economics*, pages 99–118, 1955.
- [2] Daniel Kahneman. Maps of bounded rationality: Psychology for behavioral economics. *American economic review*, 93(5):1449–1475, 2003.
- [3] Glenn Harrison and E Elisabet Rutstrom. Risk aversion in the laboratory. 12:41–196, 06 2008.
- [4] Charles A. Holt and Susan K. Laury. Risk aversion and incentive effects. *American Economic Review*, 92(5):1644–1655, December 2002.
- [5] P.P. Wakker. *Prospect Theory: For Risk and Ambiguity*. Cambridge University Press, 2010.
- [6] Sanjit Dhami. *The Foundations of Behavioral Economic Analysis (Chapter 2: Behavioral Models of Decision Making)*. Oxford University Press, 2016.
- [7] George Wu and Richard Gonzalez. Curvature of the probability weighting function. *Management science*, 42(12):1676–1690, 1996.
- [8] Nathalie Etchart-Vincent. Probability weighting and the ‘level’ and ‘spacing’ of outcomes: An experimental study over losses. *Journal of Risk and Uncertainty*, 39:45–63, 2009.
- [9] Mohammed Abdellaoui, Olivier l’Haridon, and Horst Zank. Separating curvature and elevation: A parametric probability weighting function. *Journal of Risk and Uncertainty*, 41:39–65, 2010.
- [10] Hang Zhang, Xiangjuan Ren, and Laurence T Maloney. The bounded rationality of probability distortion. *Proceedings of the National Academy of Sciences*, 117(36):22024–22034, 2020.
- [11] Amos Tversky and Daniel Kahneman. Advances in prospect theory: Cumulative representation of uncertainty. *Journal of Risk and uncertainty*, 5:297–323, 1992.

- [12] Daniel Kahneman and Amos Tversky. Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2):263–291, 1979.
- [13] Tomomi Tanaka, Colin F. Camerer, and Quang Nguyen. Risk and time preferences: Linking experimental and household survey data from vietnam. *American Economic Review*, 100(1):557–71, March 2010.
- [14] Alexander L. Brown, Taisuke Imai, Ferdinand M. Vieider, and Colin F. Camerer. Meta-analysis of empirical estimates of loss aversion. *Journal of Economic Literature*, 62(2):485–516, June 2024.

*

2. Risk preferences under exposure to stress and violence

- [15] Johannes Haushofer and Ernst Fehr. On the psychology of poverty. *Science*, 344(6186):862–867, 2014.
- [16] Michael Callen, Mohammad Isaqzadeh, James D Long, and Charles Sprenger. Violence and risk preference: Experimental evidence from afghanistan. *American Economic Review*, 104(1):123–148, 2014.
- [17] Ryan Brown, Verónica Montalva, Duncan Thomas, and Andrea Velásquez. Impact of Violent Crime on Risk Aversion: Evidence from the Mexican Drug War. *The Review of Economics and Statistics*, 101(5):892–904, 12 2019.
- [18] Pamela Jakiela and Owen Ozier. The impact of violence on individual risk preferences: Evidence from a natural experiment. *Review of Economics and Statistics*, 101(3):547–559, 2019.
- [19] Marc Rockmore and Christopher B Barrett. The implications of aggregate measures of exposure to violence for the estimated impacts on individual risk preferences. *World Development*, 157, 2022.
- [20] Hannah Schildberg-Hörisch. Are risk preferences stable? *Journal of Economic Perspectives*, 32(2):135–154, 2018.

*

3. Rational altruism and altruist punishment

- [21] James Andreoni and John H. Miller. Giving according to garp: An experimental test of the consistency of preferences for altruism. *Econometrica*, 70(2):737–753, 2002.
- [22] Robert Slonim and Alvin E. Roth. Learning in high stakes ultimatum games: An experiment in the slovak republic. *Econometrica*, 66(3):569–596, May 1998.
- [23] Joseph Henrich, Robert Boyd, Samuel Bowles, Colin Camerer, Ernst Fehr, Herbert Gintis, Richard McElreath, Michael Alvard, Abigail Barr, Jean Ensminger, Natalie Smith Henrich, Kim Hill, Francisco Gil-White, Michael Gurven, Frank W. Marlowe, John Q. Patton, and David Tracer. Economic man in cross-cultural perspective: Behavioral experiments in 15 small-scale societies. *Behavioral and Brain Sciences*, 28:795–815, 12 2005.
- [24] Sanjit Dhami. *The Foundations of Behavioral Economic Analysis (Chapter 5: The Evidence on Human Sociality)*. Oxford University Press, 2016.
- [25] Herbert Gintis, Samuel Bowles, Robert T. Boyd, and Ernst Fehr, editors. *Moral Sentiments and Material Interests: The Foundations of Cooperation in Economic Life (chapter 1)*, volume 1. The MIT Press, 1 edition, 2006.
- [26] Ernst Fehr and Simon Gächter. Altruistic punishment in humans. *Nature*, 415:137–140, 10 January 2002.
- [27] Ernst Fehr and Simon Gächter. Cooperation and punishment in public goods experiments. *American Economic Review*, 90(4):980–994, September 2000.
- [28] Justine Burns and Malcolm Keswell. Diversity and the provision of public goods: Experimental evidence from south africa. *Journal of Economic Behavior & Organization*, 118:110 – 122, 2015. Economic Experiments in Developing Countries.
- [29] Ernst Fehr and Simon Gächter. Fairness and retaliation: The economics of reciprocity. *Journal of Economic Perspectives*, 14(3):159–181, Summer 2000.
- [30] Ernst Fehr and Urs Fischbacher. Why social preferences matter. Nobel Symposium on Behavioral and Experimental Economics, 2001.

- [31] Ernst Fehr and Bettina Rockenbach. Detrimental effects of sanctions on human altruism. *Nature*, 422:137–140, March 13 2003.
- [32] Ernst Fehr and Armin Falk. Psychological foundations of incentives. *European Economic Review*, 46:687–724, 2002.
- [33] Ernst Fehr, Simon Gächter, and Georg Kirchsteiger. Reciprocity as a contract enforcement device: Experimental evidence. *Econometrica*, 65(4):833–860, July 1997.
- [34] Samuel Bowles. Being human: Conflict: Altruism’s midwife. *Nature*, 456(7220):326–327, 11 2008.

*

4. Trust and social cohesion

- [35] James C. Cox. How to identify trust and reciprocity. *Games and Economic Behavior*, 46(2):260 – 281, 2004.
- [36] Catherine C. Eckel and Rick K. Wilson. Is trust a risky decision? *Journal of Economic Behavior and Organization*, 55(4):447 – 465, 2004. Trust and Trustworthiness.
- [37] John Ermisch, Diego Gambetta, Heather Laurie, Thomas Siedler, and SC Noah Uhrig. Measuring people’s trust. *Journal of the Royal Statistical Society: Series A (Statistics in Society)*, 172(4):749–769, 2009.
- [38] Daniel Houser, Daniel Schunk, and Joachim Winter. Distinguishing trust from risk: An anatomy of the investment game. *Journal of Economic Behavior and Organization*, 74(1–2):72 – 81, 2010.
- [39] Detlef Fetchenhauer and David Dunning. Betrayal aversion versus principled trustfulness-how to explain risk avoidance and risky choices in trust games. *Journal of Economic Behavior and Organization*, 81(2):534 – 541, 2012.
- [40] Miguel A. Costa-Gomes, Steffen Huck, and Georg Weizsacker. Beliefs and actions in the trust game: Creating instrumental variables to estimate the causal effect. *Games and Economic Behavior*, 88:298–309, 2014.
- [41] Alessandra Cassar and Mary Rigdon. Trust and trustworthiness in networked exchange. *Games and Economic Behavior*, 71(2):282–303, 2011.
- [42] Chen Li, Uyanga Turmunkh, and Peter P. Wakker. Social and strategic ambiguity versus betrayal aversion. *Games and Economic Behavior*, 123:272–287, 2020.
- [43] Ernst Fehr. On the economics and biology of trust. *Journal of the European Economic Association*, 7(2-3):235–266, 2009.
- [44] Michael Kosfeld, Markus Heinrichs, Paul J. Zak, Urs Fischbacher, and Ernst Fehr. Oxytocin increases trust in humans. *Nature*, 435(7042):673–676, 06 2005.
- [45] L. Cameron, N. Erkal, L. Gangadharan, and X. Meng. Little emperors: Behavioral impacts of china’s one-child policy. *Science*, 339(6122):953–957, 2013.
- [46] Edward Glaeser, David Laibson, Jose A. Scheinkman, and Christine L. Soutter. Measuring trust. *Quarterly Journal of Economics*, 65:622–846, 2000.
- [47] Michael J Gilligan, Benjamin J Pasquale, and Cyrus Samii. Civil war and social cohesion: Lab-in-the-field evidence from nepal. *American Journal of Political Science*, 58(3):604–619, 2014.
- [48] Kei Tsutsui and Daniel John Zizzo. Group status, minorities and trust. *Experimental Economics*, 17(2):215–244, 2014.
- [49] Tomomi Tanaka and ColinF. Camerer. Trait perceptions influence economic out-group bias: lab and field evidence from vietnam. *Experimental Economics*, pages 1–22, 2015.
- [50] Catherine C. Eckel and Ragan Petrie. Face value. *American Economic Review*, 101(4):1497–1513, June 2011.
- [51] Noel D. Johnson and Alexandra A. Mislin. Trust games: A meta-analysis. *Journal of Economic Psychology*, 32(5):865–889, 2011.
- [52] Raj Chetty, Matthew O. Jackson, Theresa Kuchler, Johannes Stroebel, Nathaniel Hendren, Robert B. Fluegge, Sara Gong, Federico Gonzalez, Armelle Grondin, Matthew Jacob, Drew Johnston, Martin Koenen, Eduardo Laguna-Muggenburg, Florian Mudekereza, Tom Rutter, Nicolaj Thor, Wilbur Townsend, Ruby Zhang, Mike Bailey, Pablo Barberá, Monica Bhole, and Nils Wernerfelt. Social capital i: measurement and associations with economic mobility. *Nature*, 608(7921):108–121, 2022.

- [53] Raj Chetty, Matthew Jackson, Theresa Kuchler, Johannes Stroebel, Nathaniel Hendren, Robert Fluegge, Sara Gong, Federico Gonzalez, Armelle Grondin, Matthew Jacob, Drew Johnston, Martin Koenen, Eduardo Laguna-Muggenburger, Florian Mudekereza, Tom Rutter, Nicolaj Thor, Wilbur Townsend, Ruby Zhang, Mike Bailey, and Nils Wernerfelt. Social capital ii: determinants of economic connectedness. *Nature*, 608:1–13, 08 2022.

*

5. Emotions and decision making

- [54] Randall W. Engle. Working memory capacity as executive attention. *Current Directions in Psychological Science*, 11(1):19–23, 2002.
- [55] Anandi Mani, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao. Poverty impedes cognitive function. *Science*, 341(6149):976–980, 2013.
- [56] Madan M. Pillutla and J.Keith Murnighan. Unfairness, anger, and spite: Emotional rejections of ultimatum offers. *Organizational Behavior and Human Decision Processes*, 68(3):208–224, 1996.
- [57] George Loewenstein, Elke Weber, Christopher Hsee, and Ned Welch. Risk as feelings. *Psychological bulletin*, 127:267–86, 03 2001.
- [58] Antonio Damasio. Chapter 14 - neuroscience and the emergence of neuroeconomics. In Paul W. Glimcher, Colin F. Camerer, Ernst Fehr, and Russell A. Poldrack, editors, *Neuroeconomics*, pages 207 – 213. Academic Press, London, 2009.
- [59] Alan G Sanfey, James K Rilling, Jessica A Aronson, Leigh E Nystrom, and Jonathan D Cohen. The neural basis of economic decision-making in the ultimatum game. *Science*, 300(5626):1755–1758, 2003.
- [60] Ernst Fehr. Chapter 15 - social preferences and the brain. In Paul W. Glimcher, Colin F. Camerer, Ernst Fehr, and Russell A. Poldrack, editors, *Neuroeconomics*, pages 215 – 232. Academic Press, London, 2009.
- [61] Elizabeth A. Phelps. Chapter 16 - the study of emotion in neuroeconomics. In Paul W. Glimcher, Colin F. Camerer, Ernst Fehr, and Russell A. Poldrack, editors, *Neuroeconomics*, pages 233 – 250. Academic Press, London, 2009.
- [62] Benedetto De Martino, Dharshan Kumaran, Ben Seymour, and Raymond J. Dolan. Frames, biases, and rational decision-making in the human brain. *Science*, 313(5787):684–687, 2006.
- [63] Craig R. Fox and Russell A. Poldrack. Chapter 11 - prospect theory and the brain. In Paul W. Glimcher, Colin F. Camerer, Ernst Fehr, and Russell A. Poldrack, editors, *Neuroeconomics*, pages 145 – 173. Academic Press, London, 2009.
- [64] John Ifcher and Homa Zarghamee. Happiness and time preference: The effect of positive affect in a random-assignment experiment. *The American Economic Review*, 101(7):3109–3129, 2011.
- [65] Tamar Kugler, Terry Connolly, and Lisa D. Ordóñez. Emotion, decision, and risk: Betting on gambles versus betting on people. *Journal of Behavioral Decision Making*, 25(2):123–134, 2012.