

Seminar 2: Introduction to Behavioural Economics

This seminar will provide an introductory overview of what behavioural economics is all about. Students are expected to read a selection of introductory articles and book chapters on behavioural economics that have been uploaded to the Seminar 2 folder. An excellent and highly accessible starting point is the introductory book chapter by Edward Cartwright (2011). From there, I recommend reading the introductions to behavioural economics by Mullainathan and Thaler (2000), and Camerer and Lowenstein (2004). Time permitting, please also read Daniel Kahneman's Nobel Prize lecture paper "Maps of Bounded Rationality: Psychology for Behavioral Economics" (Kahneman, 2003).

If you don't have time to read the latter paper, you can access a video of Kahneman's prize lecture from here:

http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2002/kahneman-lecture.html

It is unlikely that you will have time to read the remaining review papers by Conlisk (1996), Rabin (1998), and DellaVigna (2009). Although offering excellent overviews of key issues in behavioural economics, these papers are much less accessible than the ones cited above. Students may wish to return to these papers at a later point in the seminar series when they have a firmer grasp of the subject area.

In order to facilitate discussion in the seminar, I have included below some questions that you should consider during your readings:

1. What is behavioural economics and what are its aims?
2. What is the difference between a normative theory and a descriptive theory?
3. Can a theory be both normatively correct and descriptively adequate?
4. Should a theory be judged on the accuracy of its predictions or the accuracy of its assumptions?
5. What is economic (unbounded) rationality?
6. What is meant by the term "bounded rationality"?
7. What are the three key assumptions of the standard model that behavioural economists consider unrealistic?
8. Can you think of any specific examples of judgement or choice that violate each of these assumptions?

9. What was the so-called “heuristics and biases” program?
10. Give an example of a heuristic and how it leads to a cognitive bias?
11. Do you think the standard model, with its somewhat extreme assumptions, is a logical place to start thinking about judgement and decision making?
12. Would we be better off scrapping the standard model and starting again or is a better strategy to work with the standard model and to try and augment it, by incorporating psychologically plausible assumptions, so that it can better explain the data?