



E.ON Energy Research Center



Prof. Dr. Reinhard Madlener, Lehrstuhl für Wirtschaftswissenschaften insb. Energieökonomik

Economics Seminar (VWL, SS 2016)

LV 16ss-39082

Seminar in Behavioral and Experimental Economics

Introduction

Economics as a science investigates how people deal with scarce commodities. To develop theories it relies on assumptions. Since the 1980s economists, called behavioral economists, have tried to motivate those assumptions psychologically. This tradition raised core elements of behavioral economics, such as *rationality*, *prospect theory*, *mental accounting*, *time discounting*, *behavioral game theory* and *social preferences*. Methodically, behavioral economics is strongly related to *experimental economics*, and recently in particular to *neuroeconomics*. Research results in behavioral economics often evoked criticism towards traditional economic theories, whereas on the other hand, behavioral economics is frequently reproached that it did not generate any sufficiently comprehensive alternative theory. In many relevant domains though, e.g. *energy economics*, the investigation of behavioral effects plays a major role in current research. In this seminar we study and discuss the main features and implications of behavioral and experimental economics.

Learning objectives

- Learning the essential features of behavioral economics, experimental economics, and neuroeconomics.
- Familiarizing with the key topics and concepts applied in behavioral economics.
- Getting to know empirical research approaches to investigate important questions in behavioral economics.

Participants

The seminar mainly addresses students in the Bachelor programs BWL, VWL, and Wirtschaftsgeographie. For participation *basic knowledge in microeconomics* is required. The maximum number of participants is 22. Registration is compulsory.

Requirements (grade weighting between brackets)

From participants in the seminar it is expected that they write a seminar paper of at most 15 pages within one of 11 topics using a document template (40%). Two participants can opt for each topic: one of them first presents his/her paper and then the other one criticizes the former (30%). Each presentation should be supplemented with a two-page summarizing handout (15%) and should not last longer than 20 minutes. Subsequently, there is a 20-minute general discussion (15%, grading also based on participation in the *Lernraum* discussion). Seminar paper and presentation are executed in English.

Organization and timetable

- **Tue Feb 23** (16:00 hrs.): prediscussion and assignment of topics and roles (*)
- Tue Mar 29 (12:00 hrs.) ultimately: delivery of paper structures (per e-mail)
- Tue Apr 5 (12:00 hrs.) ultimately: feedback on paper structures from lecturer (per e-mail)
- Mon Jun 13 (12:00 hrs.) ultimately: delivery of seminar papers (at secretariat and per e-mail) and former presentations (per e-mail)
- Tue Jun 14 (12:00 hrs.) ultimately: publication of seminar papers and former presentations by lecturer (in *Lernraum*)
- Thu Jul 7 (12:00 hrs.) ultimately: delivery of critique presentations and handouts (per e-mail)
- Tue Jul 12 / Tue Jul 19: execution of seminar as block event

Tuesday July 12 2016	Tuesday July 19 2016
9:00 intro	9:15 topic 7
9:30 topic 1	10:15 break
10:30 break	10:30 topic 8
10:45 topic 2	11:30 long lunch (Mensa)
11:45 break	
12:00 topic 3	
13:00 short lunch (take-away)	
14:00 topic 4	14:20 topic 9
15:00 break	15:20 break
15:15 topic 5	15:25 topic 10
16:15 break	16:25 break
16:30 topic 6	16:30 topic 11
17:30 evaluation	17:30 evaluation

The prediscussion and the seminar meetings all take place at the E.ON Energy Research Center, Mathieustraße 10, in **seminar room 00.23** (ground floor of the main building). Secretariat Lehrstuhl für Wirtschaftswissenschaften insb. Energieökonomik (FCN): room 10.29 (first floor).

Information

Further information can be found at the FCN homepage (www.fcn.eonerc.rwth-aachen.de) and in the L2P *Lernraum*. For remaining questions related to organization please contact the FCN secretariat *per e-mail* (post_fcn@eonerc.rwth-aachen.de) and for questions related to content dr. drs. Marjolein Harmsen - van Hout (mharmsen@eonerc.rwth-aachen.de).

(*) Who cannot attend this meeting should send a representative to secure a seminar slot.

Topics and obligatory literature

Core literature: Wilkinson, N. and Klaes, M. (2012), *An Introduction to Behavioral Economics* (2nd ed.), Palgrave Macmillan.

1. Introduction and overview
 - a. Wilkinson & Klaes chapters 1 & 2 (60 pages).
 - b. Camerer, C.F. and Loewenstein, G. (2004). Behavioral Economics: Past, Present, Future. In: Camerer, C.F., Loewenstein, G., and Rabin, M. (eds.), *Advances in Behavioral Economics*, Princeton University Press, 3-51.
2. Rationality
 - a. Wilkinson & Klaes chapters 3 & 4 (84 pages).
 - b. Ariely, D. (2008). *Predictably Irrational: The Hidden Forces that Shape Our Decisions*. New York: Harper (2 chapters at own option: ca. 20 pages).
 - c. Simon, H.A. (1978). Rationality as Process and as Product of Thought. *The American Economic Review, Papers and Proceedings* **68**(2), 1-16.
3. Prospect theory
 - a. Wilkinson & Klaes chapter 5 (72 pages).
 - b. Kahneman, D. and Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. *Econometrica* **47**(2), 263-291.
 - c. Kahneman, D. and Tversky, A. (1992). Advances in Prospect Theory: Cumulative Representation of Uncertainty. *Journal of Risk and Uncertainty* **5**(4), 297-323.
4. Mental accounting
 - a. Wilkinson & Klaes chapter 6 (41 pages).
 - b. Kahneman, D., Knetsch, J.L., and Thaler, R.H. (1990). Experimental Tests of the Endowment Effect and the Coase Theorem. *Journal of Political Economy* **98**(6), 1325-1348.
 - c. Thaler, R.H. (1985). Mental Accounting and Consumer Choice. *Marketing Science* **4**(3), 199-214.
 - d. Thaler, R.H. (1999). Mental Accounting Matters. *Journal of Behavioral Decision Making* **12**(3), 183-206.

5. Time discounting
 - a. Wilkinson & Klaes chapters 7 & 8 (73 pages).
 - b. Frederick, S., Loewenstein, G. and O'Donoghue, T. (2002). Time Discounting and Time Preference: A Critical Review. *Journal of Economic Literature* **40**(2), 351-401.

6. Experimental economics
 - a. Smith, V.L. (1982). Microeconomic Systems as an Experimental Science. *American Economic Review* **72**(5), 923-955.
 - b. Roth, A.E. (1988) Laboratory Experiments in Economics: A Methodological Overview. *Economic Journal* **98**(393), 974-1031.
 - c. Plott, C.R. (1982). Will Economics Become an Experimental Science? *Southern Economic Journal* **57**(4), 901-919.

7. Behavioral game theory
 - a. Wilkinson & Klaes chapter 9 (57 pages).
 - b. Camerer, C.F. (2004). Behavioral Game Theory: Predicting Human Behavior in Strategic Situations. In: Camerer, C.F., Loewenstein, G., and Rabin, M. (eds.), *Advances in Behavioral Economics*, Princeton University Press, 374-392.
 - c. Crawford, V.P. (1997). Theory and Experiment in the Analysis of Strategic Interaction. In: Kreps, D. and Wallis, K. (eds.), *Advances in Economics and Econometrics: Theory and Applications, Seventh World Congress 1*, Cambridge University Press, 206-242.

8. Social preferences
 - a. Wilkinson & Klaes chapter 10 (67 pages).
 - b. Fehr, E. and Schmidt, K.M. (1999). A Theory of Fairness, Competition, and Cooperation. *The Quarterly Journal of Economics* **114**(3), 817-868.

9. Neuroeconomics
 - a. Camerer, C.F., Loewenstein, G., and Prelec, D. (2005). Neuroeconomics: How Neuroscience Can Inform Economics. *Journal of Economic Literature* **43**(1), 9-64.
 - b. Gul, F. and Pesendorfer, W. (2005). The Case for "Mindless Economics". Working Paper, Princeton University, November (48 pages).
 - c. Fudenberg, D. (2006). Advancing beyond 'Advances in Behavioral Economics'. *Journal of Economic Literature* **44**(3), 694-711.

10. Behavioral energy economics
 - a. Amir, O., Ariely, D., Cooke, A. et al. (2005). Psychology, Behavioral Economics, and Public Policy. *Marketing Letters* **16**(3/4), 443-454.
 - b. Wilson, C. and Dowlatabadi, H. (2007). Models of Decision Making and Residential Energy Use. *Annual Review of Environment and Resources* **32**, 169-203.
 - c. 4 articles at own option from references in b. (ca. 60 pages).

11. Conclusion and outlook
 - a. Wilkinson & Klaes chapter 11 (45 pages).
 - b. Schwartz, H. (2008). *A Guide to Behavioral Economics*, Higher Education Publications, Inc. (ca. 40 pages).
 - c. Rabin, M. (2002). A Perspective on Psychology and Economics. *European Economic Review* **46**(4/5), 657-685.