

Behavioral Economics Seminar (Master)

Summer term 2016

In the summer term 2016 the chair of Economic Theory of Prof. Dr. Grimm offers a seminar on Behavioral Economics. The area of "Behavioral Economics" analyzes how agents actually behave and models systematic deviations from the predictions of "standard economic theory". In order to cover a broad range of topics and methodologies, the possible topics are from four different areas: 1) "Incentives Contracts", 2) "Delegation & Responsibility", 3) "Social product characteristics" and 4) "Behavioral biases in financial markets". It is the goal of the seminar to introduce students to the frontier of research in these areas and to critically discuss recent developments and methodologies.

The seminar is intended for master students in economics and is also open to master students of related fields, as well as exchange students, that possess sufficient knowledge of game theory and microeconomics. The seminar will be a block seminar and will take place on two or three dates, depending on the number of participants (most likely end of May/ beginning of June). A list with potential topics is provided below. Seminar participants are expected to write a paper (about 20 pages), present their paper in the seminar and discuss the paper of another student in class. The plan is to have an organizational meeting at the end of February, such that **(parts) of the seminar paper can be written during the lecture free time**. Participants can start to work on their papers as soon as topics are assigned. Since this seminar will be offered at the explicit request of students **it will only take place if at least 6 students sign up for the organizational meeting until February 18th**.

Organizational Meeting: Last week of February

Topics can be chosen at this meeting

If you are interested in the seminar and want to attend the organizational meeting please contact Timo Hoffmann (Timo.Hoffmann@fau.de) **until February 18th** via email including your name, student ID number and field of study. Feel free to contact us if you have further questions.

List of Topics

Incentive contracts

1) Incentives and performance I

Ariely, Dan, et al. (2009), "Large stakes and big mistakes", *The Review of Economic Studies*, 76(2), 451-469.

Levitt, Steven D. (2006), "White-collar crime writ small: A case study of bagels, donuts, and the honor system", *American Economic Review*, 96(2), 290-294.

2) Incentives and performance II

Gneezy, Uri and Aldo Rustichini (2000), "Pay Enough or Don't Pay at All", *The Quarterly Journal of Economics*, 115(3), 791-810

Bohnet, Iris, Bruno S. Frey, and Steffen Huck (2001), "More Order with Less Law: On Contract Enforcement, Trust, and Crowding", *American Political Science Review*, 95(1), 131-144.

3) Incentives and trust

Fehr, Ernst and J.A. List (2004), "The hidden costs and returns of incentives - trust and trustworthiness among CEOs", *Journal of the European Economic Association*, 2(5), 743-771.

Bohnet, Iris, Bruno S. Frey, and Steffen Huck (2001). "More Order with Less Law: On Contract Enforcement, Trust, and Crowding", *American Political Science Review*, 95(1), 131-144.

Delegation & Responsibility

4) Optimal delegation

Sliwka, Dirk (2001), "On the costs and benefits of delegation in organizations", *Journal of Institutional and Theoretical Economics*, 157(4), 568-590.

Fehr, Ernst, Holger Herz, and Tom Wilkening (2013), "The lure of authority: Motivation and incentive effects of power", *American Economic Review*, 103(4)

5) Wage delegation

Bartling, Björn, and Urs Fischbacher (2008), "Shifting the Blame: On Delegation and Responsibility", *Universität Konstanz Research Paper Series* 32

Charness et al. (2012), "The Hidden Advantage of Delegation: Pareto Improvements in a Gift Exchange Game", *American Economic Review*, 102(5), 2358-2379

6) Restricting choice

Falk, Armin, and Michael Kosfeld (2006), "The hidden costs of control", *The American economic review*, 1611-1630.

Frey, Bruno S. (1993), "Does Monitoring Increase Work Effort? The Rivalry with Trust and Loyalty", *Economic Inquiry*, 31(4), 663-70.

7) The role of intentions

Charness, G. and Levine, D. I. (2007), "Intention and Stochastic Outcomes: An Experimental study", *The Economic Journal*, 117: 1051-107

Falk, A., Fehr, E. and Fischbacher, U. (2003), "On the nature of fair behavior", *Economic Inquiry*, 41(1), 20-26.

Social product characteristics

8) Socially conscious consumers

Stratton, J. P., & Werner, M. J. (2013), "Consumer behavior analysis of fair trade coffee: Evidence from field research", *The Psychological Record*, 63(2), 363.

Hainmueller, J., & Hiscox, M. J. (2012), "The socially conscious consumer? Field experimental tests of consumer support for fair labor standards" (*Working paper*)

9) Willingness-to-pay for socially desirable characteristics

Hainmueller, J., Hiscox, M. J., & Sequeira, S. (2014), "Consumer demand for the fair trade label: Evidence from a multi-store field experiment", *Review of Economics and Statistics*, forthcoming.

De Pelsmacker, P., Driesen, L., & Rayp, G. (2005), "Do consumers care about ethics? Willingness to pay for fair-trade coffee", *Journal of consumer affairs*, 39(2), 363-385.

10) Social norms and altruism

Dana, J., Weber, R. A., & Kuang, J. X. (2007), "Exploiting moral wiggle room: experiments demonstrating an illusory preference for fairness", *Economic Theory*, 33(1), 67-80.

DellaVigna, S., List, J. A., & Malmendier, U. (2009), "Testing for altruism and social pressure in charitable giving", (No. w15629). *National Bureau of Economic Research*

11) Markets & social responsibility

Bartling, B., Weber, R. A., & Yao, L. (2015), "Do markets erode social responsibility?", Forthcoming in: *Quarterly Journal of Economics*.

Rode, J., Hogarth, R. M., & Le Menestrel, M. (2008), "Ethical differentiation and market behavior: An experimental approach", *Journal of Economic Behavior & Organization*, 66(2), 265-280.

Behavioral biases in financial markets

12) Deposition effects in asset markets

Weber, Martin, and Colin F. Camerer (1998), "The disposition effect in securities trading: An experimental analysis", *Journal of Economic Behavior & Organization*, 33(2), 167-184.

Barberis, N., & Xiong, W. (2009), "What Drives the Disposition Effect? An Analysis of a Long-Standing Preference-Based Explanation", *The Journal of Finance*, 64(2), 751-784.

13) Psychological biases and asset prices

Barberis, Nicholas, and Richard Thaler (2003), "A survey of behavioral finance", *Handbook of the Economics of Finance* 1, 1053-1128.

Strong, Norman, and Xinzhong Xu (2003), "Understanding the equity home bias: Evidence from survey data", *Review of Economics and Statistics*, 85(2), 307-312.

14) Winner's Curse: field and laboratory evidence

Kagel, John H., and Dan Levin (1986), "The winner's curse and public information in common value auctions", *American Economic Review*, 894-920.

Thaler, Richard H. (1988), "Anomalies: The winner's curse", *The Journal of Economic Perspectives*, 2(1), 191-202.

15) Bubbles and crashes: field and laboratory evidence

Smith, Vernon L., Gerry L. Suchanek, and Arlington W. Williams (1988), "Bubbles, crashes, and endogenous expectations in experimental spot asset markets", *Econometrica*, 1119-1151.

Shiller, Robert (2003), "Diverse views on asset bubbles", *Asset Price Bubbles: The Implications for Monetary, Regulatory and International Policies*