PURDUE
KRANNERT
SCHOOL OF MANAGEMENT

ANALYTICAL INSIGHT, GLOBAL LEADERS

Economics 471: Behavioral Economics

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Class Time:	Tue & Thurs 4.30-5.45 PM RAWL 2077

Course Description and Goals

- The course studies economic behavior through the methodology of *experimental economics*.
- In this course you will learn about behavioral biases that arise at the individual level, such as when a decision is made under risk, and behavioral biases that arise when decisions are made in a multiple agent setting, such as auctions and markets.
- You will also learn about the perspective provided by economic analysis in social exchanges that involve bargaining, trust, and about social dilemmas that arise when people try to provide public goods voluntarily.
- The class will typically meet one day per week in the experimental economics laboratory (KRAN 701, 7th floor of KRAN), where you will participate in an experiment on that week's topic. You will then write a lab report based on the experiment data.
- The goal of the experiments and the lab reports is to encourage you to actively participate in your learning, and to provide hands-on experience with modern scientific methodology in the social sciences.

Textbook

- *Markets, Games & Strategic Behavior* by Charles Holt (2007, Pearson Addison-Wesley, ISBN 0-321-41931-6. Readings selected from other sources are also assigned occasionally.

Recommended but not required readings:

- *Predictably Irrational: The Hidden Forces That Shape Our Decisions* by Dan Ariely, Harper Perennial, 2010, ISBN13 978-0-06-135324-6.
- *Nudge: Improving Decisions About Health, Wealth, and Happiness* by Richard H. Thaler and Cass R. Sunstein, Penguin, 2009, ISBN 978-0-14-311526-7.
- *Thinking, Fast and Slow* by Daniel Kahneman, Farrar, Straus and Giroux, 2011, ISBN 978-0-374-27563-1.

Course Materials

Announcements, updated schedules, assignments, class slides, etc. will be posted on *Blackboard*. *Students are responsible to get information from the web site in a timely manner*.

Attendance and class participation

- Participation in classroom discussions is strongly encouraged!
- Students are expected to arrive on time to class and lab.

- Late arrival to lab sessions may prevent students from lab participation. **Use of cell-phones in the experimental laboratory is prohibited.**
- **In class, use of cell phones and computers is limited to class-related activities**.
- Ten percent of your final grade will be based on your cumulative experimental "earnings" in the experiments, and if you miss an experiment then you do not have any earnings (and receive a grade of zero) for that experiment.
- Students anticipating an excused absence due to illness must provide a physician's certification of illness and notify the instructor by emails in advance.
- If you must miss class for several days, and have a doctor's note documenting your illness, you can make up a missed lab report by completing a 4 to 5 page critical review (summary) of a behavioral economics research article that instructor will provide you.

Assessments

Exams	50%
Lab Reports	30%
Group Experiment Design Project	10%
Course credit from experiment earnings	10%

- Exams are equally weighted and the lowest exam score is dropped.
- Lab reports are equally weighted and the lowest lab report score is dropped.
- Lab "earnings" are also equally weighted and the lowest score is dropped.
- Late submission of lab reports will not be accepted.
- Reading assignments do not require submission. However, students should finish the assignments before due time.
- No "make-up" labs will be assigned or accepted except for cases of a severe documented illness or bereavement as noted above.
- No "make-up" exams will be given, but as noted above students can drop one of the three exam scores.

Lab Reports

- Lab reports are due at the start of class and may not be turned in late.
- If you must miss class on a day that a report is due, be sure to turn it in *before class*. Email submissions are acceptable in such cases.
- The experimental data for your lab reports will be posted on *Blackboard*. Everyone must complete his or her own lab reports, independently of other students. [You may discuss general strategies for solving problems on the lab reports with your classmates, as long as you write your lab reports independently.] Do not collaborate with a classmate and turn in very similar lab reports.

Group Experimental Design Project

- Students will be divided into groups, by a random draw.
- Part of this course's purpose is to allow you to learn about scientific methodology. Therefore, each group will design their own experiment to test a specific research question.
- The groups should meet early in the semester, both with and without Professor Rosokha, to discuss possible research questions and experiments. In consultation with Professor Rosokha, groups will schedule a class time (during one of the lab sessions) to run their experiment, using the other classmates as "subjects."

- Each group will present their research question, experimental design and results in a 20 to 25-minute presentation during the final three class sessions (April 23-30).
- Your project/presentation constitutes 10% of your grade. Part of this grade will be based on Professor Rosokha's assessment of your group's accomplishments, and part will be based on an evaluation of your contribution to the group project by your peers.

Purdue University Code of Honor

The purpose of the Purdue University academic community is to search for truth and to endeavor to communicate with each other. Self-discipline and a sense of social obligation within each individual are necessary for the fulfillment of these goals. It is the responsibility of all Purdue students to live by this code, not out of fear of the consequences of its violation, but out of personal self-respect. As human beings we are obliged to conduct ourselves with high integrity. As members of the civil community we have to conduct ourselves as responsible citizens in accordance with the rules and regulations governing all residents of the state of Indiana and of the local community. As members of the Purdue University community, we have the responsibility to observe all University regulations.

To foster a climate of trust and high standards of academic achievement, Purdue University is committed to cultivating academic integrity and expects students to exhibit the highest standards of honor in their scholastic endeavors. Academic integrity is essential to the success of Purdue University's mission. As members of the academic community, our foremost interest is toward achieving noble educational goals and our foremost responsibility is to ensure that academic honesty prevails. *For additional information on academic integrity, see* http://www.purdue.edu/cie/teachingtips/academic_integrity/index.html. In this course, if you are caught cheating, or knowingly helping someone else to cheat, you will receive zero on that particular assignment. If you are caught cheating more than once you will fail the course. If you do not know what cheating is please see https://www.purdue.edu/odos/welcome/academic-integrity/.

Adverse Weather Conditions

The University takes into consideration local and regional weather conditions, travel conditions and decisions by local school districts when deciding whether to delay, dismiss or cancel classes and/or routine operations for an entire campus due to Adverse Weather Conditions. When conditions warrant, a decision to delay, dismiss, or cancel classes and/or routine operations is coordinated with appropriate local city, county or state officials and communicated to faculty, staff and students of the affected campus. The decision to delay, dismiss or cancel classes and/or routine operations for the West Lafayette campus is made by the President and for each of the Regional Campuses it is made by the Chancellor. The President and the Chancellors will each assign a designee for such purposes to act in his or her absence.

Adaptive Programs Statement:

Students with disabilities must be registered with Adaptive Programs in the Office of the Dean of Students before classroom accommodations can be provided. If a student is eligible for academic accommodations because the student has a documented disability that will impact the student's work in this class, please schedule an appointment with the instructor to discuss the needs.

Emergency Statement:

In the event of a major campus emergency, course requirements, deadlines and grading percentages are subject to changes that may be necessitated by a revised semester calendar or other circumstances.

Class Attendance Statement:

Purdue University policy states that all students are expected to be present for every meeting of classes in which they are enrolled. All matters relative to attendance, including the make-up of missed work, are to be arranged between the student and the instructor. Only the instructor can excuse a student from classes or course responsibilities. In the case of an illness, accident, or an emergency, the student should make direct contact with the instructor as soon as possible, preferably before the class. If a student will be absent for more than five days, the student or his/her representative should notify the Office of the Dean of Students (765-494-1254) as soon as possible. Be advised, the student may be asked to provide documentation from an authorized professional or agency which supports an explanation for the absence.

Tentative Schedule

Note: HW – Homework; AIC – Academic Integrity Certification

Date	Class Contents	Reading	Due
8/25/2015	1 Class: Introduction to Behavioral Economics	Ch. 1	
8/27/2015	2 Class: Preferences, Utility, Probability		
9/1/2015	3 Class: Probability Cont., Bayesian updating, Excel Tutorial		
9/3/2015	4 Lab1: Risk, Uncertainty, and Decision Making	Ch. 4	
9/8/2015	5 Class: Risk, Uncertainty, and Decision Making		Rep1
9/10/2015	6 Lab2: Probability Matching and Lottery Choice Anomalies	Ch. 27-28	
9/15/2015	7 Class: Probability Matching and Lottery Choice Anomalies		Rep2
9/17/2015	8 Lab3: Search/Exploration-Exploitation, Bayes' Rule	Ch. 29-30	
9/22/2015	9 Class: Search/Exploration-Exploitation, Bayes' Rule		Rep3
9/24/2015	10 Lab4: Information Cascades, Application: Newsvendor	Ch. 31	
9/29/2015	11 Class: Information Cascades; Review		Rep4
10/1/2015	**Exam 1 (IN CLASS)**		
10/6/2015	12 Class: Strategic Interactions;	Ch. 3	
10/8/2015	13 Lab5: Some Simple Games;		
10/13/2015	**NO CLASS: OCTOBER BREAK**		
10/15/2015	14 Class: Some Simple Games;		Rep5
10/20/2015	15 Class: Bargaining	Ch. 12	
10/22/2015	16 Lab6: Bargaining; Trust, Reciprocity;	Ch. 13	
10/27/2015	17 Class: Trust, Reciprocity		Rep6
10/29/2015	18 Lab7: Voluntary Contributions	Ch. 14	
11/3/2015	19 Class: Voluntary Contributions;		Rep7
11/5/2015	20 Lab8: Private-Value Auctions	Ch. 19	
11/10/2015	21 Class: Private-Value Auctions; Review		Rep8
11/12/2015	**Exam 2 (IN CLASS)**		
11/17/2015	22 Class: The Double Auction Market	Ch. 2	
11/19/2015	23 Lab9: Asymmetric Quality Information; Student Experiments		
11/24/2015	24 Class: Asymmetric Information: A Market for Lemons	Ch. 10	
11/26/2015	**NO CLASS: THANKSGIVING VACATION**		
12/1/2015	25 Group Presentations (20 minutes each);		
12/3/2015	26 Lab10: Student Experiments;		Rep9*
12/8/2015	27 Group Presentations (20 minutes each);		
12/10/2015	28 Review		Rep10*
TBD	**Exam 3; Projects are due.**		

On lab days we meet in the experimental economics laboratory (KRAN 701, 7th floor of KRAN)
*If you schedule your group's experiment on this day, you don't need to turn in the report