

Université Paris 1 Panthéon - Sorbonne

Department of Economics

Behavioral Economics

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## Description

The objective of this course is to provide students with an overview of the main areas of behavioral economics, by acknowledging the behavioral implications of theoretical models, looking at the empirical evidence, and focussing on the development of behavioral models to capture the empirical trends. The workhorse of economic modelling is *homo-economicus*; that is, an agent characterized by an infinite ability to make rational decisions. Rationality means that agents update their beliefs correctly, in the manner described by Bayes' Law when they receive new information, and (ii) given their beliefs, make choices that are normatively acceptable in the sense that they are consistent with the expected utility framework. This traditional framework is appealing and simple hence it would be very comforting if its predictions were confirmed in the data. In recent years, however, anecdotal evidence as well as theoretical and empirical research has shown this paradigm to be insufficient to describe various features of actual markets. In behavioral economics, we thus add some reality to the standard models of economics by incorporating features of human nature, such as bounded rationality, biases in interpreting information, interdependent preferences, emotions, and learning.

## Structure

The course comprises of lectures. The course grade is determined based on attendance and participation (25%) as well as the student's performance in the two-hour, written, final examination (75%).

## **Preparatory and General Readings**

By and large, the course will be based on academic papers (which are available online) and lecture notes (slides). However, besides the assigned reading list, there are some books that you may find useful, if you are interested in getting a deeper knowledge about behavioral economics. Such readings are **Behavioral Game Theory: Experiments in Strategic Interaction** by Colin Camerer (2003), **An Introduction to Behavioral Economics** (2012) by Nick Wilkinson and Matthias Klaes, and **The Foundations of Behavioral Economic Analysis** (2016) by Sanjit Dhami.

## **Tentative Schedule**

Topic 1: Behavioral Economics: An Introduction

- 2: Theories of Intergroup Relations
- 3: Fairness and Reciprocity
- 4: Modelling Fairness and Reciprocity
- 5: Interpreting New Information, Intertemporal Choice, Emotions
- 6: Coordination Games
- 7: Structural Models of Decision Rules
- 8: Decisions From Experience
- 9: Adaptive Learning Models
- 10: Pattern Mining