1. Description of the subject

- Topics in Economic Theory I
- Code: 32074
- Total credits: 3 ECTS
- Workload: 75 hours
- Type of subject: Optative
- Department of Economics and Business
- Teaching team: Jose Apesteguia

2019-2020 Academic Year
Master of Research in Economics, Finance and Management
2. Teaching guide

Introduction

This class can be taken individually, or it can be taken as part of the microeconomic theory track or the behavioral economics and decision making track. More information on these tracks is provided below, in section 3.

The traditional models of decision-making in economics are being seriously revised, in light of recent developments in psychology, behavioral economics and the neurosciences. In this course we cover some of the key theoretical developments in modeling non-standard decision-making.

This class is designed both for students with a theoretical, empirical and experimental inclination towards the understanding of individual decision-making, and for students with an interest in applying behavioral decision-making models to various economic settings.

This course is supposed to be taken together with the course Topics in Economic Theory II: Behavioral Decision Theory-Part II, taught by Larbi Alaoui.

The Contents section below gives a short intro to each one of the four blocks that compose this course, and lists a number of key papers in the literature. In addition to the papers listed below, I will make available in the course Box folder the key recent papers in the field. These are the very last papers, the ones that are currently being presented in the relevant forums, and represent the state of the art in the field.

Contents

1. Review of the classical foundations for decision-making under certainty and uncertainty.
We begin with a very brief review of the seminal model of decision-making under certainty. We will discuss the setting, the behavioral assumptions and main rationalizability result. Students not familiar with the foundations of the standard model should consult the references below.

Readings:


2. Bounded Rationality. The focus of this section is on the revealed preference theory of bounded rationality. We will present some of the most influential boundedly rational models, and discuss the implications of bounded rationality for welfare analysis and the measurement of rationality.
Main readings:


Others:


3. Reference-dependence behavior. In this section we adopt a more applied approach, and will focus on what has arguably been the most influential contributions of the bounded rationality and behavioral economics literatures: reference-dependent behavior. We will lay down the basics of the reference-dependent models and emphasize their applications to a number of settings, including finance, labor, insurance, etc.

Main readings:


Others (General):


Applications of reference-dependent models:


4. Stochastic Choice. There is renewed interest in understanding choice as the outcome of some random process. Stochastic choice models allow the treatment of choice variability in a stylized way, which ultimately facilitates the introduction of certain behavioral considerations. We will review the classical contributions in psychology and economics. We will then introduce
the new developments in the area. In addition, we will establish some connections between stochastic choice and micro-econometrics.

Main readings:


Others:


Subject name


Provider: John Wiley & Sons, Ltd


Assessment and Grading System

Students will select a paper to be presented in class, either from the above reading list or from the papers posted in the course Box folder.
The core of the evaluation will be based on one research project for Parts I and II of the topics in economic theory courses, to be presented at the end of the course and turned in. The research project should consist of an original idea that could potentially be converted into a research paper. The content can be theoretical, empirical, or experimental, or a combination of these approaches. Each student must meet with both Larbi and me during the term for approval of the chosen topic. Students can turn in the paper during the second term (specifically, on January 30th), but they can ask for additional time if they require an extension to delve deeper into the topic.

Class participation is also an important component of the course, and is highly valued.

3. Tracks

- Microeconomics track

  **Fall term (September – December)**
  - Topics in Economic Theory: Behavioral Decision Theory (I and II, taught by Larbi Alaoui and Jose Apesteguia).

  **Winter term (January – March)**
  - Topics in Economic Theory III: Labor Markets (taught by Jan Eeckout).
  - Readings in Economic Theory (taught by Alex Frug).

  **Spring term (April – June)**
  - Industrial Organization (taught by Sandro Shelegia, Christian Michel and Rosa Ferrer).
  - Environmental Economics: Climate Change (taught by Humberto Llavador).

- Behavioral economics and decision making track

  **Fall term (September – December)**
  - Topics in Economic Theory: Behavioral Decision Theory (I and II, taught by Larbi Alaoui and Jose Apesteguia).

  **Winter term (January – March)**
  - Behavioral Decision Making I: Attention, Experience and Influence (taught by Gaël Le Mens and Mikhail Spektor).

  **Spring term (April – June)**
  - Experimental Economics (taught by Rosemarie Nagel).