



The Exeter College Oxford Summer Programme Behavioural Economics

Course Outline

In recent years, the standard neoclassical economic assumption that individual makes decisions purely to maximise their own material self-interest has been extensively revised. It is now widely accepted that people do not only care about their own material payoff, but they also care about other people's behaviours; often succumb to temptation; their self-expectation influences how they behave; some people are motivated to be helpful to others or do the right thing, whilst others like to see other people worse off than themselves; people are influenced by how choices are presented to them; they are bad at computation and are prone to bad habits. Psychological and social factors play an important role in human behaviours and decision-making processes. Behavioural economics increases the explanatory power of economics by incorporating these factors in order to provide more realistic psychological foundations for economic analysis. The main objective of this course is to introduce students to the theoretical and empirical research in behavioural economics and discuss how the use of methods and evidence in behavioural economics has changed both economics as a discipline and policymaking processes in the past few decades.

Prerequisites

The course is designed to be multidisciplinary and non-mathematical. It is suitable for students of all disciplines who have a strong interest in human behaviour, psychology and economics. There are no prerequisites and technical material is kept to a minimum. Although some background in Economics and/or Psychology would be helpful.

Teaching Methods and Assessment

- 12 x 1.25hr Lectures (15hrs)
- 6 x 1.25hr Seminars (7.5hrs)
- 4 x 1.25hrs Tutorials (5hrs)

Final Assessment: A 3-hour written exam (40%), an essay of no more than 3,000 words (40%), an oral presentation and participation in seminar discussion (20%).

For further guidelines on group presentations, see the relevant document.

Readings

The recommended textbook for this module is:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing.

All topics covered throughout this module are covered in the above textbook.

In addition to this, students who are interested in this course but have no background in Economics or Psychology are encouraged to read the following popular books:

- Richard H. Thaler and Cass R. Sunstein. 2009. *Nudge: Improving Decisions About Health, Wealth and Happiness*. Yale University Press.
- Dan Ariely. 2009. *Predictably Irrational: The Hidden Forces That Shapes Our Decisions*. Harper Collins.
- Daniel. Kahneman. 2012. *Thinking, Fast and Slow*. Penguin.
- <https://www.theguardian.com/world/2017/oct/09/what-is-behavioural-economics-richard-thalernobel-prize>
- <https://www.theguardian.com/science/2014/jun/01/nudge-economics-freakonomics-danielkahneman-debunked>

Behavioural Economics Research Groups at Oxford:

- <https://www.economics.ox.ac.uk/research-group/behavioural-economics>
- <https://cess-nuffield.nuff.ox.ac.uk/>

Lecture list

Lecture 1: What is Behavioural and Experimental Economics?

This lecture will discuss the emergence and establishment of behavioural economics as an independent sub-discipline of economics. We will also talk about why economists design experiments and how we can actually design an experiment. In addition, we will discuss what the methodological differences between economics and psychology experiments are.

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapter 1**

Lecture 2: Bargaining games

One of the most common aspects of economic and social life that people experience and engage in has to do with bargaining. Here, we will discuss how we can examine bargaining

situations through the lens of experimental economics using the so-called ultimatum games. How do individuals make bargaining decisions and what determinants affect their behaviour?

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapter 2**

Lecture 3: Trust games

An important characteristic of our daily behaviour that determines aspects of economic and social interactions is trust. The presence of trust defines the behavioural content of a host of human relationships, and it is important to identify ways to measure trust in a clean way, ruling out factors that may interfere with trusting behaviour in the field. In this lecture, we will examine whether individuals are willing to trust others and if so, whether it payoffs to trust. What is the role of intentions and what are the behavioural motivations behind individuals' decisions (not) to trust?

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapter 2**

Lecture 4: Gift-exchange games

The presence of trust has implications in labour market relationships and may affect how salary negotiations take place. In this lecture we will look at how employers and employees make decisions in competitive labour markets and offer evidence on the role of fairness driven consideration which keep such markets out of equilibrium. We will also explore several important factors that have been shown to affect the wage-effort relationship.

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapter 3**

Lecture 5: Public Good games I

One of the most fundamental issues in the social and behavioural sciences is to understand whether and if so, under which conditions individuals are willing to cooperate in situations where personal interests are at odds with collective benefits. The experimental public goods game literature is extensive, and we will cover two lectures on this important issue. In the first lecture, we will discuss how we can study issues of human cooperation and which mechanisms can explain why and how people cooperate.

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapter 5**

Lectures 6 & 7: Public Good games II

In the second lecture on public good games, we will continue our discussion on the determinants of human cooperation. In particular, we will look at how cooperation is shaped when decisions are made sequentially (leadership), how people contribute in the presence of income inequality and what psychological factors such as priming may affect contribution levels to the public good.

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapters 5 & 6**

Lecture 8: Public Good games with sanctioning I

The existing public good game literature shows that individuals contribute to the public good, to some extent, but their contribution levels decline over time, converging to what standard economic theory would predict. A growing body of the literature thus asks whether there are ways to regulate self-interested behaviour and shows that one such mechanism is the introduction of sanctioning opportunities which typically leads to higher cooperation rates. In this lecture, we will discuss the most significant developments in the public good game with sanctioning literature and examine the key determinants that affect individuals' propensity to negatively reciprocate against others.

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapter 7**

Lecture 9 & 10: Public Good games with sanctioning II

This lecture follows up on and extends our discussion on the determinants of social norms and negative reciprocity. More specifically, we will look at the circumstances under which the presence of sanctioning opportunities may undermine human cooperation, the role of rewarding (i.e. positive reciprocation) in raising contributions and how the endogenous formation of institutions may shape contribution and sanctioning behaviour.

Readings:

Drouvelis, M. (2021). *Social Preferences: An Introduction to Behavioural Economics and Experimental Research*. Agenda Publishing. **Chapter 8**

Lecture 11: Emotions and economic decision-making

Emotions are pervasive in many social environments and interactions, characterising key aspects of our everyday relations. However, their consequences on economic behaviour have received only limited attention in the economics literature. This lecture will provide you with key insights on the role of emotions in explaining as well as causally impacting economic decision-making. We will discuss evidence mainly stemming from social dilemma games which capture the tension between personal interest and social benefit. In their very nature, such mixed motive environments are loaded with emotions and provide the ideal framework for studying the interplay between emotions and behaviour.

Readings:

Fehr, E., and Gächter, S., (1999). Cooperation and Punishment in Public Goods Experiments, Institute for Empirical Research in Economics, University of Zurich, Working Paper No. 10, pp. 26-29.

Cubitt, R., Drouvelis, M., and Gächter, S., (2011). Framing and free riding: emotional responses and punishment in social dilemma games. *Experimental Economics*, vol. 14, pp. 254-272.

Drouvelis, M., & Grosskopf, B. (2016). The Effects of Induced Emotions on Pro-Social Behaviour, *Journal of Public Economics*, vol. 134, pp. 1-8.

Lecture 12: Framing and social preferences

Recent studies have cast doubt on the robustness of elicited social preferences to framing and contextual changes, especially in dictator and public good games. These studies suggest that behaviour in experimental games is sensitive to seemingly irrelevant context-specific cues. If such findings held more generally for the games used to measure social preferences in the laboratory, this would have serious implications for the external validity of the measures obtained, for the theories motivated by them, and for the explanation of subjects' behaviour. This lecture will provide a summary of the existing literature on the issue of frame-sensitivity in relation to key aspects of individuals' social preferences and will explore the conditions under which framing manipulations matter.

Readings:

Andreoni, J., (1995). Warm-glow versus cold-prickle: The effects of positive and negative framing on cooperation in experiments. *Quarterly Journal of Economics*, vol. CX, pp. 1-21.

Gächter, S., Orzen, H., Renner, E., and Starmer, C., (2009). Are experimental economists prone to framing effects? A natural field experiment, *Journal of Economic Behavior & Organization*, vol. 70, pp. 443-446.

Park, E-S., (2000). Warm-glow versus cold-prickle: a further experimental study of framing effects on free-riding, *Journal of Economic Behavior & Organization*, vol. 43, pp. 405-421.

Gächter S, Kölle F, Quercia S. (2017). Reciprocity and the Tragedies of Maintaining and Providing the Commons. *Nature Human Behaviour*. 1(9):650-656.