Definition and Methodology

David Laibson

Behavioral Economics Summer Camp
Berkeley, 2002
Names

- Behavioral economics (name irritates profession; who does non-Behavioral economics?)
- Psychology and economics
- Subfields: Behavioral Game Theory, Behavioral Macro, etc...
Definition: Behavioral Economics

- Adds more psychology to economics, particularly cognitive and social psych.
- Explores alternatives to perfect rationality
- Emphasizes microfoundations (i.e., preferences and cognition)
- Takes experimental evidence seriously (but doesn’t rely exclusively on it)
Please don’t confuse with...

- Experimental economics (to follow)
- Evolutionary economics (BE takes preferences and cognition as primitives; BE’s think preferences and cognition are much easier to measure than to impute from the ancestral environment)
- Psychology (to follow)
Is behavioral a field?

No:
• Few “pure” jobs
• No journal
• Why ghettoize?

Yes:
• Some courses
• Some seminars
• Many conferences

Future field status uncertain.
Methodology

• Lab empirics (experiments)
• Field empirics
• Theory
Lab empirics (experiments)

• High internal validity ("How confident can I be in my specific causal model?")
• Low external validity ("How well do the results generalize to the ‘real world’?")
• Complement with (not substitute for) field research
Experimental problems:

Internal validity
• confounds (aka experimental artifacts)
• demand effects (are the subjects trying to respond to the perceived goals of the experimenter?)

External validity
• unrepresentative subjects
• under-experienced subjects
• under-incentivized tasks
• non-naturalistic problems
• (some of these cut opposite ways!)
"The Rules": Adapted from George Loewenstein

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<tbody>
<tr>
<td>Deception</td>
<td>OK</td>
<td>Prohibited</td>
<td>Avoid unless…</td>
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<td>Incentive-compatibility</td>
<td>Rare</td>
<td>Required</td>
<td>Generally used</td>
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| Context              | Often rich| Attempt to strip away | • Often studied  
|                      |          |                        | • Context unavoidable |
| Randomization        | Always   | Sometimes  | Absolutely critical if you want to isolate the effect of your treatment |
| Documentation        | Summary of design | Experimental instruments; complete dataset | Experimental economists have it right |
| Stationary replication | Almost never | Common (plus emphasis on last period) | • Important if you care about learning.  
|                      |          |                        | • First period also of great interest |
Experimental Debriefing

Aggressively use debriefing surveys. For example...

• “Was the experiment confusing?”
• “What strategies did you use?”
• “What was the experiment about?”
Experimental odds and ends...

• Run a pilot (debrief pilot!)
• Consider measuring expectations and other non-observables.
• Consider collecting demographic info.
• Consider measuring process (aka process tracing).
Field empirics

• High external, low internal validity.
• In the field, it is often hard to pin down the causes of phenomena (e.g., problems of reverse causality and omitted variable biases plague empirical studies).
• Test multiple predictions to rule out competing hypotheses.
• Make sure you know exactly how your model is identified.
• Don’t make the mistake of glibly overlooking rational explanations.
• But, don’t automatically accept rational actor “just so stories” (in practice rational actor model can be just as ad hoc as behavioral models)
• When faced with competing explanations, remember that the parsimonious explanation is usually right.
• Behavioral explanations needn’t be the only explanation.
Theory

• Is it cute math, or are you talking about something potentially real?
• Is it real but minor? Don’t study arcana.
• Can your theory be generalized? How wide is the scope of applicability?
• Is it parsimonious?
• Does it generate non-obvious implications (are they true)?
• Does it explain things that you already knew? Only OK. Does it predict new things that you can confirm? Better.
• Is it so general that it makes no predictions? (multiple equilibria?!)
• Could it become a workhorse for other economists (is your model a tool economists can use)?
• Does it truly explain an anomaly or is the success a coincidence?
Hybrids

- Experiments in the field (interventions)
- Natural experiments
- Structural estimation ($\text{GMM, MSM, MLE}$)

Lots of action in these and other hybrid categories.
Finding a good question!

- It should interest your non-academic relatives.
- It should have (potentially) important consequences.
- It should ultimately be about something that we can measure.
- It should interest you. Your passion is the most important ingredient.
Publication

• Research rules differ according to field.
• Paper styles also differ by journal.
• Throughout your research, ask yourself: Who is my audience?
• Don’t spend an eternity getting your research out. Circulate drafts to colleagues, including critics.
• Talk about your research with others.
• Take risks picking research questions.
Professional Development

• Journals?
• Job market strategies?

More on this next week...