Definition and Methodology

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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

“The Rules”	Psych.	Exp Econ.	Beh. Econ.
Deception	OK	Prohibited	Avoid unless….
Incentive-compatibility	Rare	Required	Generally used
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 (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...