

Applications of Psychology and Economics – Econ 219B
Spring 2008
Wednesday 12-3, 639 Evans Hall

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Office Hours: Th 12-2

Syllabus

Features of this course

This course is the continuation of the 219A class in *Psychology and Economics – Theory*, taught by Mathew Rabin. As in 219A, we will keep emphasizing the psychological evidence as the basis for sound economic analysis. (Not a big surprise, given the name by which the course and the field goes.) We will also insist on the importance of neoclassical theory as a very successful benchmark that you are required to know. Finally, several topics of this course are designed to be the empirical counterpart of the theory covered in 219A. This is in particular true for the first two Sections of the course, on Non-standard Preferences and on Non-standard Beliefs.

There are two main differences between 219A and 219B. First, this class has largely an empirical orientation, as opposed to the theoretical orientation of 219B. The emphasis on data reflects the empirical status of economics. In particular, the success of the Psychology and Economics approach will depend largely on the empirical explanatory power of its theories. Can this approach explain evidence that the neoclassical model struggles with? Can it do so using parsimonious models? In 219B I will present empirical papers drawn from a variety of fields to try to address these questions. We will study papers in the fields of asset pricing, consumption, development economics, environmental economics, industrial organization, labor economics, political economy, public economics, and corporate finance.

The second main feature of the course will be its emphasis on dissertation writing. This will be apparent in the exposition of the topics. More often than not, we will note that the available empirical evidence barely scratches the surface. This is a great opportunity for students planning to work in the area! In very few other fields there are so many important questions that are still unanswered. Throughout the course I will do my best to point out what seem to me like good directions for empirical research. In addition, as an incentive to get you started, one of the requirements of the course is a paper on an applied topic using field data.

A new feature of the 219B course this year is a set of 8 to 10 Methodological Topics, covering some of the how-to-do list for empirical behavioral research. These include (i) practical topics such as approval from Human Subjects and how to run field experiments, (ii) econometric issues such as clustering of standard errors and causality and (iii) conceptual issues such as the difference between lab and field experiments, and mis-application of present-bias models. These topics are integrated with the other research topic that we cover.

Rules of the game

As a general rule, you should have taken the 219A course before you take this course. If you have not, but are interested in taking this course, please come and talk to me. The prerequisites of the 219A course, that is, an understanding of the economics of uncertainty and game theory at the level of 201B, apply to this course as well. In addition, it is important that you have had exposure to econometrics and empirical research. You should be familiar with OLS estimation, panel data models, and discrete choice models. For example, you should have no uncertainty as to what fixed effects do in a regression. Although it is not a requirement for this course, I recommend taking at least one labor economics, public economics, or applied econometrics course to anyone contemplating doing empirical research.

Throughout the course, I will assign a few required readings each week. The required readings are starred in the reading list below. The non-starred readings are optional, but I suggest that you at least read the abstract. So much of a paper is in the abstract (if the abstract is well-written).

There are four requirements for the course: problem sets, a final exam, an empirical problem set, and an empirical paper. The last two requirements are either/or, that is, you can do either the empirical problem set or the paper.

I encourage everyone to try to write an empirical paper on a Psychology and Economics topic. This will help you to get started on your research, which of course is the ultimate purpose of taking a PhD. The paper can be written with up to two other students in the class. I encourage every one that is thinking about writing the paper to come and see me by February 27. Feel free to either come during office hours or to schedule an appointment via email, since feedback from others (whether faculty or fellow students) is always the best way to improve an idea. A two-page written proposal is due by April 2. The final 10-15 page paper is due on May 20. The *ideal* paper contains a novel idea, the empirical strategy, and preliminary empirical results. Realistically, you can do significantly less as long as you show significant effort. Two things are key: (i) that you do at least some preliminary analysis with data, since one purpose of the requirement is to make sure that you learn to use Stata or another statistical package; (ii) that you use field data, as opposed to experimental data. (This is by no means meant as a negative on doing lab experiments. Laboratory experiments are great. However, this class focuses on field data) Replication of existing studies is perfectly fine, and encouraged. Replication, in fact, is a good way to start original research, and more and more replication data sets are available on the AER and JPE websites. Some of the papers prepared for this class in past year have turned into publishable papers and, in one case, even into a job market paper. I encourage you therefore to think of presenting the paper that comes out of this class in the Psychology and Economics Lunch.

In any case, you are strongly encouraged to attend the Psychology and Economics lunch (meeting most Fridays 2-3) if you are interested in making Psychology and Economics one of your fields. In addition, you should attend the Psychology and Economics Seminar (Tu 2-3.30) as much as you can. Spots to go for lunch with outside speakers are available for sign-up. Finally, keep in mind that we have a group advising session on the Fridays in which the Lunch meets for 2nd/3rd years on.

The alternative assignment is a one-time, significant empirical problem set that is meant to familiarize you with empirical research in Psychology and Economics. This year, the problem set will focus on earning announcements and the response of stock prices to the new information contained in the announcements. We may also have, in alternative, another empirical problem set

on the effect of the media. You can work on the assignment in groups of up to three people, but each one should hand in a solution. I will distribute the problem set at the beginning of March. The data will be in Stata format. I will assume that you have a working knowledge of Stata.

As for the other two requirements, the problem sets will test your knowledge of modelling and of empirical specifications in some of the papers we cover. The problem sets this year will be on Present-Biased Preferences, on Reference Dependence, on Menu Effects, and a fourth one in preparation.

Finally, the exam will cover the material of the whole class and will be modeled on the type of questions that I ask in the problem sets.

The course webpage is an important instrument for this course (you can find the link from my webpage). On the website you will find updated lists of readings, the assignments, and the revised lecture notes in pdf format.

After class, I invite you to join me to chat about any favorite topic of yours in the Peixotto room during tea time.

Grading

The final grade will be an average with weight 30% on the problem sets, 40% on the final (in-class) exam, and the remaining 30% on either the paper or empirical problem set.

Tentative schedule of classes

The schedule will vary somewhat as the class unfolds. The syllabus will be updated periodically on course webpage.

Part I -- Non-Standard Preferences

January 23 – Lecture 1

- Introduction
- Psychology and Economics: The Methodologies
- Psychology and Economics: The Fields
- Present-Biased Preferences, Part 1
- Problem Set 1 on Present-Biased Preferences assigned*

January 30 –Lecture 2

- Present-Biased Preferences, Part 2
- Status-Quo in Financial Decisions
- Consumption Choices
- Problem Set 1 on Present-Biased Preferences due*

February 6 – Lecture 3

- Present-Biased Preferences, Part 3
- Consumption Choices
- Life-Cycle Savings I

February 13 – Lecture 4

- Present-Biased Preferences, Part 4
- Life-Cycle Savings II
- Summary of the Applications
- Methodological Topic: Common Errors in Applying Present-Biased Preferences
- Reference Dependence, Part 1
- Endowment Effect
- Effect of Experience
- Problem Set 2 on Reference Dependence assigned*

February 20 – Lecture 5

- Reference Dependence, Part 2
- Daily Labor Supply
- Insurance Choices
- Methodological Topic: Effect of Experience
- Problem Set 2 on Reference Dependence due*

February 27 – Lecture 6

- Reference Dependence, Part 3

Financial Decisions
Effort on the Job
Housing Market
Deadline to Discuss Paper Topic

March 5 – Lecture 7
Social Preferences, Part 1
Charitable Giving Overview
Field Evidence of Gift Exchange
Workplace Relations
Methodological Topic: Running a Field Experiment

Part II -- Non-Standard Beliefs

March 12 –Lecture 8
Overconfidence
Law of Small Numbers
Projection Bias
Methodological Topic: Clustering Standard Errors

Part III -- Non-Standard Decision-Making

March 19 –Lecture 9
Limited Attention, Part 1
eBay Auctions
Financial Market Evidence
Voter Behavior
Methodological Topic: Portfolio Methodology
Problem Set 3 assigned

March 26 – Spring Break – No Lecture

April 2 – Lecture 10
Menu Effects, Part 1
Excess Diversification
Choice Avoidance
Preference for Familiar
Methodological Topic: Menu Choice and Inference
Also: 2-page Paper proposals due
Problem Set 3 due

April 9 – Lecture 11
Menu Effects, Part 2
Preference for Salient
Confusion
Persuasion
Methodological Topic: Human Subjects Approval

Part IV – Market Response to Biases

April 16 – Lecture 12

Social Pressure
Emotions (from Non-Standard Decision-Making Section)
Market Reaction to Biases, Part 1
Behavioral IO
Methodological Topic: Lab and Field Experiments

April 23 – Lecture 13

Market Reaction to Biases, Part 2
Behavioral Labor
Behavioral Finance
Behavioral Corporate Finance
Empirical Problem Set Handed Out

April 30 – Lecture 14

Market Reaction to Biases, Part 3
Behavioral Political Economy
Behavioral Welfare Economics
Empirical Methodologies in Psychology and Economics
Choosing Topics for Dissertation
Conclusion

May 7 – Final (in-class) Exam

May 20 (midnight) – Due date for Paper and Empirical Problem Set

Readings

*designates required readings.

Some of the readings will be taken from the textbook used in the previous semester of 219A, that is, from *Choice, Values and Frames*:

Kahneman and Tversky *Choices, values and frames*, (henceforth CVF).

The following paper in preparation for the *Journal of Economic Literature* will cover, in a dense manner, the topics covered in the class:

* DellaVigna, Stefano, "Psychology and Economics: Evidence from the Field", mimeo, 2007.

The following articles provide partial overviews of the field of Psychology and Economics:

Rabin, Matthew. 1998. "Psychology and Economics." *Journal of Economic Literature*, 36(1): 11-46.

A classic, emphasizes the psychology and its application to economics

Camerer, Colin. 2005. "Behavioral Economics" *World Congress of the Econometric Society*, London, 18-24.

Not comprehensive, but interesting ideas on the field

Mullainathan, Sendhil and Richard H. Thaler. 2001. "Behavioral Economics" in *International Encyclopedia of Social Sciences*, Pergamon Press, 1094-1100.

Classifies most P&E into Bounded Self-Control, Bounded Rationality, and Bounded Self-Interest

For those looking for a background book in social psychology to complement the content of the Psychology and Economics sequence, I highly recommend:

L. Ross and R.E. Nisbett, *The Person and the Situation*, McGraw-Hill, 1991.

A primer into a number of important social psychology findings, still a classic

Part I -- Non-Standard Preferences

January 23 – Lecture 1

Six Examples of Psychology and Economics (We will read these papers later)

* Sydnor, Justin. 2006. "Sweating the Small Stuff: The Demand for Low Deductibles in Homeowner's Insurance." Working paper.

* Gneezy, Uri, and John List. 2006. "Putting Behavioral Economics To Work: Testing For Gift Exchange In Labor Markets Using Field Experiments", *Econometrica*, Vol. 74(5), pp. 1365--1384.

* Huberman, Gur, and Tomer Regev. 2001. "Contagious Speculation and a Cure for Cancer: A Nonevent that Made Stock Prices Soar." *Journal of Finance*, 56(1): 387-396.

Iyengar, Sheena S., Gur Huberman, and Wei Jiang. 2004. "How Much Choice Is Too Much? Contributions to 401(k) Retirement Plans," in *Pension Design and Structure: New Lessons from Behavioral Finance*, ed. by O. S. Mitchell, and S. P. Utkus, chap. 5. Oxford University Press.

* Conlin, Michael, Ted O'Donoghue, and Timothy J. Vogelsang. Forthcoming. "Projection Bias in Catalog Orders." *American Economic Review*.

* DellaVigna, Stefano and Ulrike Malmendier. 2004. "Contract Design and Self-Control: Theory and Evidence." *Quarterly Journal of Economics*, 119: 353-402.

Present-Biased Preferences: Status-Quo Bias in Financial Decisions I

* Madrian, Brigitte C. and Dennis F. Shea. 2001. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *Quarterly Journal of Economics*, 116(4): 1149-1187.

* Choi, James J., David Laibson, Brigitte C. Madrian and Andrew Metrick. 2006. "Saving for Retirement on The Path of Least Resistance," in Ed McCaffrey and Joel Slemrod, eds., *Behavioral Public Finance: Toward a New Agenda* New York: Russell Sage Foundation, pp. 304-351.

January 30 – Lecture 2

Present-Biased Preferences: Status-Quo Bias in Financial Decisions II

* O'Donoghue, Ted and Matthew Rabin. 2001. "Choice and Procrastination," *Quarterly Journal of Economics*, 121-160.

O'Donoghue, Ted and Matthew Rabin. 1999 "Doing It Now or Later," *American Economic Review*, 89(1), 103-124.

Ted O'Donoghue and Matthew Rabin. "Procrastination in Preparing for Retirement", in *Behavioral Dimensions of Retirement Economics*, Henry Aaron, editor, The Brookings Institution, 1999.

* Carroll, Gabriel D.; Choi, James J. and David Laibson and Brigitte Madrian and Andrew Metrick. 2007. "Optimal Defaults and Active Decisions," NBER Working Paper.

Cronqvist, Henrik, and Richard H. Thaler. 2004 "Design Choices in Privatized Social-Security Systems: Learning from the Swedish Experience." *American Economic Review Papers and Proceedings*, Vol. 94(2), pp. 424-428.

Abadie, Alberto, and Sebastien Gay. 2006. "The Impact of Presumed Consent Legislation on Cadaveric Organ Donation: A Cross-Country Study" *Journal of Health Economics*, 25(4): 599--620.

Present-Biased Preferences: Consumer Behavior I

* Ariely, Dan and Wertenbroch, Klaus (2002), "Procrastination, Deadlines, and Performance: Self-Control by Precommitment, *Psychological Science*, 13 (May), 219-224

February 6 – Lecture 3

Aside: Effect of Financial Education

Duflo, Esther and Emmanuel Saez. 2003. "The Role Of Information And Social Interactions In Retirement Plan Decisions: Evidence From A Randomized Experiment." *Quarterly Journal of Economics*, 118(3): 815-842.

* Choi, James J., David Laibson, Brigitte C. Madrian and Andrew Metrick. 2006. "Saving for Retirement on The Path of Least Resistance," in Ed McCaffrey and Joel Slemrod, eds., *Behavioral Public Finance: Toward a New Agenda* New York: Russell Sage Foundation, pp. 304-351.

Present-Biased Preferences: Consumer Behavior II

* DellaVigna, Stefano and Malmendier, Ulrike. 2006. "Paying Not To Go To The Gym", *American Economic Review*, 96(3): 694-719.

* Ausubel, Lawrence. "Adverse Selection in the Credit Card Market", Working Paper, University of Maryland, June 1999.

Shui, Haiyan, and Ausubel, Lawrence. "Time Inconsistency in the Credit Card Market", mimeo.

Present-Biased Preferences: Life-Cycle Consumption and Savings Decisions I

* David Laibson, Andrea Repetto and Jeremy Tobacman, "Estimating Discount Functions from Lifecycle Consumption Choices" January 26, 2004.

Laibson, David. 1997. "Golden eggs and hyperbolic discounting", *Quarterly Journal Of Economics*, Vol. 112(2), pp. 443-77.

Angeletos, George-Marios, David Laibson, Jeremy Tobacman, and Stephen Weinberg. 2001. "The Hyperbolic Consumption Model: Calibration, Simulation, and Empirical Evaluation." *Journal of Economic Perspectives*, 15(3).

February 13 – Lecture 4

Present-Biased Preferences: Life-Cycle Consumption and Savings Decisions II

* Ashraf, Nava, Dean Karlan, and Wesley Yin. 2006. "Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines." *Quarterly Journal of Economics* 121, no. 2.

Present-Biased Preferences: Six More Applications

Duflo, Esther, Michael Kremer, and Jonathan Robinson. 2007. "Why don't farmers use fertilizers: Evidence from Field Experiments in Western Kenya" Working Paper.

DellaVigna, Stefano and M. Daniele Paserman. 2005. "Job Search and Impatience." *Journal of Labor Economics*, 23(3): 437-466.

Methodology: Common Errors in Applying Present-Biased Preferences

Fang, Hanming, and Dan Silverman. 2004. "Time-inconsistency and Welfare Program Participation: Evidence from NSLY." *Cowles Foundation Discussion Papers No 1465*.

Shui, Haiyan, and Ausubel, Lawrence. "Time Inconsistency in the Credit Card Market", Working Paper.

Reference Dependence and the Endowment Effect

* Kahneman, Daniel, Jack L. Knetsch, and Richard Thaler. 1990. "Experimental Tests of the Endowment Effect and the Coase Theorem." *Journal of Political Economy*, 98: 1325-48.

* Plott, Charlie R., and Zeiler, Kathryn. 2005 "The Willingness to Pay/Willingness to Accept Gap, the "Endowment Effect," Subject Misconceptions and Experimental Procedures for Eliciting Valuations", *American Economic Review*, 95: 530-545.

Plott, Charlie R., and Zeiler, Kathryn. 2005 "Exchange Asymmetries Incorrectly Interpreted as Evidence of Endowment Effect Theory and Prospect Theory?" Working Paper.

* List, John A. 2003. "Does Market Experience Eliminate Market Anomalies?" *Quarterly Journal of Economics*, 118(1): 41-71.

List, John A. "Neoclassical Theory Versus Prospect Theory: Evidence from the Marketplace," *Econometrica* (2004), 72(2): pp. 615-625.

Haigh, Michael, and John A. List. 2004. "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," *Journal of Finance*, 60(1), 523-534.

February 20 – Lecture 5

Methodology: Effect of Experience

* List, John A. 2003. "Does Market Experience Eliminate Market Anomalies?" *Quarterly Journal of Economics*, 118(1): 41-71.

List, John A. "Neoclassical Theory Versus Prospect Theory: Evidence from the Marketplace," *Econometrica* (2004), 72(2): pp. 615-625.

Palacios-Huerta, Ignacio and Oscar Volji. Forthcoming. "Experientia Docet: Professionals Play Minimax in Laboratory Experiments" *Econometrica*

List, John, Steven Levitt, and David Lucking. "What Happens in the Lab Stays in the Lab" Working Paper.

Palacios-Huerta, Ignacio and Oscar Volji. 2007. "Field Centipedes", Working paper.

Haigh, Michael, and John A. List. 2004. "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," *Journal of Finance*, 60(1), 523-534.

Reference Dependence and Labor supply

* Camerer, Colin, Babcock, Linda, Loewenstein, George, and Thaler, Richard. "Labor supply of New York City Cabdrivers: One day at a time", 1997, *Quarterly Journal Of Economics*, pp. 407-42. (CVF 20)

* Farber, Henry S. 2005. "Is Tomorrow Another Day? The Labor Supply of New York City Cab Drivers", *Journal of Political Economy*.

Farber, Henry S. "Reference-Dependent Preferences and Labor Supply: The Case of New York City Taxi Drivers" *American Economic Review*, forthcoming.

* Fehr, Ernst and Lorenz Goette. 2007. “Do Workers Work More if Wages are High? Evidence from a Randomized Field Experiment.” *American Economic Review*, 97(1).

Meng, JuanJuan. 2008. “New York City Cabdrivers' Labor Supply Revisited: Reference-Dependent Utility with Targets for Hours and Income.” Working Paper.

Oettinger, Gerald S. 1999. “An Empirical Analysis of the Daily Labor Supply of Stadium Vendors,” *Journal of Political Economy*, 107(2): 360-392.

Reference Dependence and Insurance Choices

Cicchetti, Charles J and Jeffrey A. Dubin. 1994. “A Microeconomic Analysis of Risk Aversion and the Decision to Self-Insure.” *The Journal of Political Economy*, 102(1): 169-186.

* Justin Sydnor, “The Deductible-Premium Puzzle: Evidence on Risk Aversion from Deductible Choice in the Homeowners Insurance Market”, Berkeley, mimeo, 2005.

February 27 – Lecture 6

Reference Dependence and Housing Markets

* Genesove, David and Christopher Mayer. 2001. “Loss Aversion and Seller Behavior: Evidence from the Housing Market,” *Quarterly Journal of Economics*, 116(4), 1233-1260.

Reference Dependence and Asset Pricing

* Odean, Terry. 1998. “Are Investors Reluctant to Realize Their Losses?”, *Journal of Finance*, pp. 1775-1798. (CVF 21)

Ivkovich, Zoran, James Poterba and Scott Weisbenner. 2005 “Tax-Motivated Trading by Individual Investors.” *American Economic Review*, 95(5): 1605—1630.

* Barberis, Nicholas and Wei Xiong. 2006. “What Drives the Disposition Effect? An Analysis of a Long-Standing Preference-Based Explanation.” Working Paper.

Karlsson, Niklas, George Loewenstein, and Duane Seppi. 2007. “The ‘Ostrich’ Effect: Selective Attention to Information about Investments” Working Paper.

Benartzi, Shlomo and Thaler, Richard. 1995. “Myopic loss aversion and the equity premium puzzle”, *Quarterly Journal of Economics*, 110, pp.73-92. (CVF 17)

Barberis, Nicholas, Ming Huang and Tano Santos. 2001. “Prospect Theory and Asset Prices”, *Quarterly Journal of Economics*, 116(1): 1-53.

Barberis, Nicholas and Huang, Ming. “Mental Accounting, Loss Aversion, and Individual Stock Returns” *Journal of Finance*, 56, 2001, pp.1247-92.

Reference Dependence and Pay-Setting

* Mas, Alexander. 2006. “Pay, Reference Points, And Police Performance”, *Quarterly Journal of Economics*.

March 5 – Lecture 7

Social Preferences: Charitable Giving

Jim Andreoni, "The Economics of Philanthropy." in N. Smeltser, P. Baltes, eds., *International Encyclopedia of Social and Behavioral Sciences*, Elsevier: Oxford, 2001, 11369-11376.

John A. List and David Lucking-Reiley, "The Effects of Seed Money and Refunds on Charitable Giving: Experimental Evidence from a University Capital Campaign." *Journal of Political Economy*, February 2002, vol. 110, no. 8, pp. 215-233.

Social Preferences: Evidence in The Workplace

Krueger, Alan and Alexandre Mas. 2004. "Strikes, Scabs and Tire Separations: Labor Strife and the Production of Defective Bridgestone/Firestone Tires," *Journal of Political Economy*, 112(2): 253-89.

* Bandiera, Oriana, Iwan Barankay and Imran Rasul. 2005. "Social Preferences and the Response to Incentives: Evidence from Personnel Data." *Quarterly Journal of Economics*, 120(3): 917--962.

Social Preferences: Gift Exchange in The Field

* Fehr, Kirchsteiger, and Riedl. 1993. "Does Fairness Prevent Market Clearing? An Experimental Investigation" *Quarterly Journal of Economics*, 108, pp. 437-459.

Falk, Armin. "Gift Exchange in the Field", *Econometrica*, forthcoming.

* Gneezy, Uri, and John List. 2006. "Putting Behavioral Economics To Work: Testing For Gift Exchange In Labor Markets Using Field Experiments", *Econometrica*, Vol. 74(5), pp. 1365--1384.

* List, John. 2006. "The Behavioralist Meets the Market: Measuring Social Preferences and Reputation Effects in Actual Transactions", *Journal of Political Economy*, Vol. 114(1): 1-37.

Part II -- Non-Standard Beliefs

March 12 – Lecture 8

Overconfidence

Camerer, Colin, and D. Lovallo (1999) “Overconfidence and Excess Entry: An Experimental Approach,” *American Economic Review*, 89:1 (March), 306-318.

CVF 23

* Malmendier, Ulrike, and Geoffrey Tate. Forthcoming. “Who Makes Acquisitions? CEO Overconfidence and the Market's Reaction,” *Journal of Financial Economics*.

Malmendier, Ulrike, and Geoffrey Tate. 2005. “CEO Overconfidence and Corporate Investment.” *Journal of Finance*, 60 (6): 2661-2700.

* Odean, Terrance. 1999. “Do investors trade too much?” *American Economic Review*, 89: 1279—1298.

Odean, T. “Boys will be Boys: Gender, Overconfidence, and Common Stock Investment” with Brad Barber, *Quarterly Journal of Economics*, February 2001, Vol. 116, No. 1, 261-292.

Daniel, Kent D., David Hirshleifer, and Avanidhar Subrahmanyam. 1998. “Investor psychology and security market under- and over-reactions”, *Journal of Finance*, 53: 1839--1886.

Projection Bias

* Conlin, Michael, Ted O'Donoghue, and Timothy J. Vogelsang. Forthcoming. “Projection Bias in Catalog Orders.” *American Economic Review*.

Law of Small Numbers

Terrell, Dek. 1994. “A Test of the Gambler's Fallacy -- Evidence from Pari-Mutuel Games,” *Journal of Risk and Uncertainty*, 8(3): 309-317.

* Benartzi, Shlomo. 2001. “Excessive Extrapolation and the Allocation of 401(k) Accounts to Company Stock” *Journal of Finance*, 56(5):1747-1764.

Barberis, Nicholas, Andrei Shleifer and Robert Vishny. 1998. “A model of investor sentiment”, *Journal of Financial Economics*, 49: 307-345.

Part III -- Non-Standard Decision-Making

March 19 – Lecture 9

Limited Attention: eBay Auctions

* Lee, Hanh and Ulrike Malmendier. 2006 “The Bidder's Curse”, Working Paper.

* Hossain, Tanjim and John Morgan. 2006. “...Plus Shipping and Handling: Revenue (Non) Equivalence in Field Experiments on eBay,” *Advances in Economic Analysis & Policy*, 6(2): 1429-1429.

Hossain, Tanjim and John Morgan. 2007. “Shrouded Attributes and Information Suppression: Evidence from Field Experiments” Working Paper.

Limited Attention: Financial Market Evidence

Huberman, Gur, and Tomer Regev. 2001. “Contagious Speculation and a Cure for Cancer: A Nonevent that Made Stock Prices Soar.” *Journal of Finance*, 56(1): 387-396.

* Cohen, Lauren, and Andrea Frazzini. Forthcoming. “Economic Links and Predictable Returns”, *Journal of Finance*.

DellaVigna, Stefano and Joshua Pollet. 2007. “Demographics and Industry Returns” *American Economic Review*, 97: 1167-1702.

DellaVigna, Stefano and Joshua Pollet. Forthcoming. “Investor Inattention and Friday Earnings Announcements” *Journal of Finance*.

Hirshleifer, David A., Sonya S. Lim, and Siew Hong Teoh. 2007. “Driven to Distraction: Extraneous Events and Underreaction to Earnings News” Mimeo.

Limited Attention: Consumption Behavior

* Chetty, Raj, Looney, Adam, and Kroft, Kory. 2007. “Salience and Taxation: Theory and Evidence from a Field Experiment”.

March 26 – Spring Break – No Lecture

April 2 – Lecture 10

Menu Effects: Excess Diversification

* Benartzi, Shlomo and Richard H. Thaler. 2001. “Naive Diversification Strategies in Defined Contribution Saving Plans.” *American Economic Review*, 91(1): 79-98.

* Huberman, Gur, and Wei Jiang. 2006. “Choices in 401(k) Plans: Equity Exposure and Number of Funds.” *Journal of Finance*, 61(2): 763-801.

Menu Effects: Choice Avoidance

Iyengar, Sheena and Mark Lepper. 2000. “When Choice is Demotivating: Can One Desire Too Much of a Good Thing?” *Journal of Personality and Social Psychology*, 79(6): 995-1006.

* Choi, James J., David Laibson, and Brigitte C. Madrian. 2006. “Reducing The Complexity Costs of 401(k) Participation Through Quick Enrollment” NBER Working Paper No. 11979.

Iyengar, Sheena S., Gur Huberman, and Wei Jiang. 2004. "How Much Choice Is Too Much? Contributions to 401(k) Retirement Plans," in *Pension Design and Structure: New Lessons from Behavioral Finance*, ed. by O. S. Mitchell, and S. P. Utkus, chap. 5. Oxford University Press.

* Bertrand, Marianne, Dean Karlan, Sendhil Mullainathan, Eldar Shafir, and Jonathan Zinman. 2006. "What's Psychology Worth? A Field Experiment in the Consumer Credit Market." Working paper.

Simonson, Itamar and Tversky, Amos. Choice in Context: Tradeoff Contrast and Extremeness Aversion, *Journal of Marketing Research*, Vol. XXIX, 1992

Menu Effects: Preference for Familiar

French, Kenneth R. and Poterba, James M. 1991. "Investor Diversification and International Equity Markets" *American Economic Review*, 81: 222-226.

Huberman, Gur. 2001. "Familiarity Breeds Investment," *Review of Financial Studies*, 14(3): 659-680.

* Benartzi, Shlomo. 2001. "Excessive Extrapolation and the Allocation of 401(k) Accounts to Company Stock" *Journal of Finance*, 56(5):1747-1764.

April 9 – Lecture 11

Menu Effects: Preference for Salient

*Ho, Daniel E., and Kosuke Imai. "The Impact of Partisan Electoral Regulation: Ballot Effects from the California Alphabet Lottery, 1978-2002.", 2004.

* Barber, Brad and Odean, Terry. "All that Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors", April 2002.

Menu Effects: Confusion

* Shue, Kelly and Erzo Luttmer. 2007. "Who Misvotes? The Effect of Differential Cognition Costs on Election Outcomes," NBER Working Paper No. 12709.

Michael S. Rashes. 2001. "Massively Confused Investors Making Conspicuously Ignorant Choices (MCI--MCIC)." *Journal of Finance*, 56(5): 1911-1927.

Persuasion

Cain, Daylain, George Loewenstein, and Don Moore. 2005. "The Dirt on Coming Clean: Perverse Effects of Disclosing Conflicts of Interest," *Journal of Legal Studies*, 34, 1-25.

* DellaVigna, Stefano and Kaplan, Ethan. 2007. "The Fox News Effect: Media Bias and Voting", *Quarterly Journal of Economics*.

Malmendier, Ulrike, and Devin Shanthikumar. 2007. "Are Small Investors Naive about Incentives?", *Journal of Financial Economics*, 85(2), 457-489.

Duflo, Esther and Emmanuel Saez. 2003. "The Role Of Information And Social Interactions In Retirement Plan Decisions: Evidence From A Randomized Experiment." *Quarterly Journal of Economics*, 118(3): 815-842.

April 16 – Lecture 12

Social Pressure

Asch, "Opinions and social pressure," *Scientific American*, 193, 1955.

Milgram, Stanley. 1963. "Behavioral study of obedience." *Journal of Abnormal and Social Psychology*, 67: 371-378.

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