

Applications of Psychology and Economics – Econ 219B
Spring 2005
Wednesday 12-3, 639 Evans
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Homework 4.
Due on March 1 at 12pm

You have a choice of two alternative homework topics for next week. The first one is on experience, the second on field experiments in general. Do not try to do both!

Homework 6.1. This homework will be a brief (one- to two-pages overall) report on the following papers:

*List, John A. "The Nature and Extent of Discrimination in the Marketplace: Evidence from the Field," *Quarterly Journal of Economics* (2004), 119(1): pp. 49-89.

*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 "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," *Journal of Finance* (2004), forthcoming.

These are some questions you may want to write about:

- A crucial issue is whether individuals really learn to get rid of the endowment effect in general, or they only learn in a specialized way, that is, only with respect to sports cards. For example, do people that attend little health clubs learn about their self-control problems, or just about the fact that they are not good at exercising. What does the *Econometrica* paper say about this? Are there ways to test this in field data?
- In the Haig and List paper, investors exhibit *more* myopic loss aversion than students. It appears that in this case experience makes things worse. When could this happen? Are there other explanations?
- When do incentives in a market setting induce people to learn faster? For example, card traders appear to have learnt to get rid of the endowment effect through market trading. Are there situations in which market incentives will slow down learning/accentuate biases? Think of employment relationships, buyer/seller relationships, any economic situation.
- What would be a good model of experience? Do people learn? Is there selection? How could you test your theory?

Homework 6.2. If you are a field experiment fan, read:

Harrison, Glenn and John A. List. "Field Experiments," *Journal of Economic Literature* (2004), forthcoming.

<http://www.arec.umd.edu/jlist/Field%20Experiments.pdf>

This paper summarizes the blossoming literature on field experiments. Think of an area that is underrepresented and/or an area you are particularly interested in, and propose a field experiment. In which category would this experiment fall?

The readings for next week are

*Fehr, Ernst and Goette, Lorenz. "Intertemporal Substitution at Work? Evidence from a Field Experiment", 2002.

<http://www.unizh.ch/iew/wp/iewwp125.pdf>

*List, John A. "The Nature and Extent of Discrimination in the Marketplace: Evidence from the Field," *Quarterly Journal of Economics* (2004), 119(1): pp. 49-89.

*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 "Do Professional Traders Exhibit Myopic Loss Aversion? An Experimental Analysis," *Journal of Finance* (2004), forthcoming.

*Genesove, David and Chris Mayer, "Loss Aversion and Seller Behavior: Evidence from the Housing Market", *Quarterly Journal of Economics*, 2001, Vol. 116, No. 4, 1233-1260.

<http://finance.wharton.upenn.edu/~mayerc>

Remember, the homework is due on Tuesday by noon. See you next week!