Master Course: Behavioral Economic Theory

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Objectives

The course picks a topic of behavioral economic theory and discusses most recent contribution to the corresponding literature. Students are intended to learn how to access models and theories, illicit its main findings and underlying intuitions, and derive new hypotheses for their own research.

This year, the course addresses models of boundedly rational decision making by consumers based on individual perceptions of prices and other product attributes. The course introduces recently proposed models of salience, focusing, relative thinking, and limited attention that make distinct predictions regarding the impact of a consumer's choice-set on her choices and the corresponding optimal reactions of suppliers. Applications of these models of boundedly rational decision making help to understand the role of decoy or bait products and the optimal design of product menus and regulatory policies.

Evaluation

Presentation   Each course participant will present the papers for one topic (see below). Each topic can only be chosen by a team of up to two students. Topic and supervisor will be allocated via a first-come-first-serve framadate survey in the first week of the term announced via OLaT. Students are asked to

- provide an overview about the (theoretical and empirical) literature related to the topic,

- present in detail the papers listed for the topic

- discuss the empirical relevance of the theoretical insights.

Presentations are expected to last 90 minutes including discussion and should be done in teams of two students. Once a topic is allocated, students are asked to contact the corresponding supervisor to schedule a first meeting. Presentations will be scheduled for January 2022 (see meetings listed in LFU online).

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Discussion Each participant acts as a discussant for one of the other presentations (discussants are allocated randomly by the course coordinators). Discussants are expected to provide their own assessment and interpretation of the findings presented by the student in charge for the corresponding topic. Discussions are expected to last 10 minutes (at least). Furthermore, students are expected to prepare the literature for each meeting and to contribute to in-class discussions. All papers mentioned in the syllabus are downloadable on the course's OLaT page.

Research paper After the course, students have to prepare a short paper (6 to 10 pages) with a proposal for a research project (e.g., a laboratory experiment, a field study, or an application of a model to a specific context).

The **final grade** consists of a grade for the presentation (40%), the paper (30%), the discussion (20%) and in-class participation (10%).

Preparation All course participants are asked to carefully read the following overview articles to provide a common starting point for in-class discussions:

1. Heidhues and Koeszegi (2018), Behavioral Industrial Organization, in: Handbook of Behavioral Economics, Elsevier.

2. Spiegler (2016), Choice Complexity and Market Competition, Annual Reviews.

Topics

- Topic 1: Salience

    - Bordalo, Genailoli, and Shleifer (2013), Salience and Consumer Choice, Journal of Political Economy.

- Topic 2: Focusing

    - Koeszegi and Szeidl (2013), A Model of Focusing in Economic Choice, Quarterly Journal of Economics.

- Topic 3: Relative Thinking

    - Bushong, Rabin, and Schwartzstein (2021), A Model of Relative Thinking, Review of Economic Studies.

- Topic 4: Limited attention

    - Heidhues, Johnen, Koeszegi (2021), Browsing versus Studying: A Pro-market Case for Regulation, Review of Economic Studies.

- Topic 5: Vertical Restraints

    - Helfrich and Herweg (2020), Context-dependent preferences and retailing: Vertical restraints on internet sales, Journal of Experimental and Behavioral Economics.

- Topic 6: Skewness Preferences

  – Dertwinkel-Kalt and Koester (2020), Salience and Skewness Preferences, Journal of European Economic Association.

- Topic 7: Decoy Products

  – Herweg, Mueller, and Weischenk (2017), Salience in Markets, in: Handbook of Behavioral Industrial Organization.

- Topic 8: Bait Products

  – Apfelstaett and Mechtenberg (2021), Competition over Context-Sensitive Consumers, Management Science, forthcoming.

- Topic 9: Default Architecture

  – Bachi and Spiegler (2017), Buridanic Competition, Games and Economic Behavior.

- Topic 10: Attention and Discrimination

  – Bartos, Bauer, Chytilova, and Matejka (2016), Attention Discrimination: Theory and Field Experiments with Monitoring Information Acquisition, American Economic Review.