

Master Course: Behavioral Economic Theory

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Objectives

In times of fake news, bubbles, and deal-making, a better understanding of how individuals try to persuade and are persuaded seems to be on top of the agenda. The course therefore focuses on the theoretical and empirical literature on persuasion, i.e., how information is perceived by rational and boundedly rational recipients and how information providers (and regulation) optimally react with suitably designed information sources.

Evaluation

Presentation Each course participant will work on a (set of) papers (see below, papers will be allocated via a first-come-first-serve doodle). Students are asked to present the main findings, model characteristics, and empirical evidence presented in the listed paper(s) and potentially other contributions to the literature. Presentations are expected to last 90 minutes including discussion and should be done in teams of two students.

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 research question. 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 article by *Della Vigna and Gentzkow (2009), Persuasion: Empirical Evidence*. The article provides an overview of the existing theoretical and empirical literature on persuasion - it will help course participants to make a suitable choice of a paper for their presentation and to organize the relevant literature.

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Topics

1. Persuasion to Resolve Information Asymmetries: *Milgrom (2008), What the Seller Won't Tell You: Persuasion and Disclosure in Markets.*
The paper provides an overview of the earlier literature on persuasion and information disclosure in markets with asymmetric information. The author analyses conditions and institutions that help to reduce or amplify information frictions in markets.
Presentation: Lemonoudi, Bailoni; Supervision: Kerschbamer
2. Unraveling: *Forsythe et al. (1989), Theories and tests of "blind bidding" in sealed-bid auctions* and *Benndorf et al. (2015), Privacy concerns, voluntary disclosure of information, and unraveling: An experiment*
The unraveling of private information of the seller in markets is tested in several lab experiments documented in these papers. Benndorf et al. (2015) provide an explanation of their findings based on models of bounded rationality.
Presentation: Trojok; Supervision: Kerschbamer
3. Strategic Reasoning: *Li and Schipper (2019), Strategic Reasoning in Persuasion Games* and *Li and Schipper (2019), Disclosure under unawareness: An Experiment*
The awareness of the strategic situation and the ability to analyze the corresponding incentives have a crucial impact on behavior in persuasion games. The papers analyze in how far established models of unawareness and (limited) strategic reasoning can help to understand behavior in laboratory experiments.
Presentation: Schwinn, Gilles ; Supervision: Walzl
4. Rational Persuasion: *Kamenica and Gentzkow (2011), Bayesian Persuasion* and *Kamenica (2019), Bayesian Persuasion and Information Design*
These papers are the main references addressing persuasion of rational agents in a setting with complete information. It's main purpose is to explain, why (rational) recipients of information alter beliefs even if they perfectly know about potentially adverse incentives of information providers.
Presentation: Seidl, Wachten, Supervision: Walzl
5. Dynamics of Persuasion: *Ely (2017) Beeps*
This paper develops a dynamic version of Kamenica and Gentzkow (2011). It demonstrates how persuasion (i.e., control of an individual's beliefs) can be organized in a dynamic process and applies it to labor market relations in a digitized world.
Presentation: Oberhollenzer, Barnickel ; Supervision: Kerschbamer
6. Preference Based Persuasion: *DellaVigna et al. (2012), Testing altruism and social pressure in charitable giving*
Next to altering beliefs, persuasion can also affect behavior through preferences - the paper addresses in particular the role of social pressure for persuasion.
Presentation: Nahar; Supervision: Walzl
7. Persuasion and Bounded Rationality 1: Herding: *Eyster and Rabin (2010), Naive Herding in Rich-Information Settings*
One reason, why persuasion may be even more pervasive than predicted by models with rational agents, is naive information processing by agents who sequentially decide. The

paper discusses the persistence of herding behavior even in rich information settings.
Presentation: Kaelber, Reermann ; Supervision: Kerschbamer

8. Persuasion and Bounded Rationality 2: Categorical Thinking: *Mullainathan et al. (2010), Coarse Thinking and Persuasion*

A reason for persuasion by virtually uninformative messages is categorical thinking: Agents group situations into categories and transfer information from one situation within this category to another.

Presentation: Wechselberger; Supervision: Walzl

9. Persuasion and Bounded Rationality 3: Limited Memory: *Mullainathan (2002), A Memory-Based Model of Bounded Rationality*

Another factor to promote (or hinder) persuasion is an individual's potentially limited memory. The paper is a classic reader on how to model decision making (and the susceptibility to persuasion) with limited memory.

10. Persuasion in Science: *Henry and Ottaviani (2019), Research and the Approval Process: The Organization of Persuasion* and *Di Tillio et al. (2017), Persuasion Bias in Science: Can Economics Help?*

An important application of models of persuasion is science. If, e.g., a new drug needs approval (i.e., a regulatory agency needs to be persuaded), this is typically based on scientific studies. The papers analyze the impact of incentives and the optimal organization of such an approval process.

Presentation: Amoser, Gueler; Supervision: Kerschbamer

11. Persuading Voters: *Allonso and Camara (2016), Persuading Voters* and *Hoffmann et al. (2019), Persuasion through Selective Disclosure: Implications for Marketing, Campaigning, and Privacy Regulation*

Releasing information in a controlled way appears to be an important aspect of modern political campaigns. The papers demonstrate how an optimal choice of public signals and/or a selective disclosure of private information can be used to benefit the sender - and also the receiver of messages in a political campaign.

Presentation: Bogner, Baalbaki; Supervision: Walzl

12. Persuasion and Language: *Diversi et al. (2018), Spin Doctors: Vague messages in disclosure games* and *Hagenbach and Koessler (2017), Simple versus rich language in disclosure games*

How to persuade the receiver of messages crucially depends on the richness of the language which is at the sender's disposal. The papers demonstrate in how far naive and sophisticated receivers of messages benefit from a rich and/or precise language.

Presentation: Huerga-Rodriguez, Gaschler; Supervision: Kerschbamer

13. Persuasion via prices: *Heidhues et al. (2017), Inferior Products and Profitable Deception* and *Heidhues et al. (2016), Exploitative Innovation*

A specific way to persuade consumers is by hiding the full price of a product. The papers investigate in how far firms hide strategically in a competitive industry.

Presentation: Bjoerklund, Kroeger; Supervision: Walzl