Behavioral economics has revealed a variety of systematic ways in which people deviate from being perfectly selfish, rational, optimizing agents. These findings have important implications for government policy and firm behavior. This class will explore these implications by answering two main questions: (1) What does behavioral economics imply for when and how the government should intervene in markets? (2) What does behavioral economics imply for firms’ pricing and production decisions? The course will present the standard economic approaches to answering these questions and explore how answers change when we consider that people act in behavioral ways. Towards the end of the course, we will investigate specific policy questions, allowing us to debate optimal policy solutions while hearing from policy makers operating in a world of behavioral agents.

**Reading:** Most classes will require readings to be done in advance (usually articles from newspapers; sometimes executive summaries of policy reports, short research articles, excerpts from longer academic research articles, and chapters of the text listed below).

*Note: Readings listed in this syllabus are tentative and subject to change.*


**Grading:** Grades will come from four sources:

- **First exam** 20%
- **Second exam** 30%
- **Homework** 30%
- **Class participation** 20%

The exams will cover material from Sessions 1-14 (first exam) and all Sessions (second exam). Homework will include problems, policy analysis, and a final group project.

**Class Participation:** You must come to class prepared. All reading must be completed before class, and you should be ready to discuss the economic concepts and applications when you arrive. Successful participation in class will reflect positively on your class participation grade, as will regular attendance and on-time arrival.

**Prerequisites:** This course will assume a basic understanding of economic concepts.
Course Outline

Part 1: Foundational Concepts with Behavioral Agents

Session 1: Course Introduction
1. Overview of the course
2. What is behavioral economics?

Text: Policy and Choice, Chapter 2: Psychology and Economics

Session 2: Welfare Economics
3. Utility
4. The Pareto frontier
5. The first and second welfare theorems and their assumptions

Text: Policy and Choice, Chapter 3: Behavioral Economics and Public Finance

Session 3: Inequality and Redistribution
1. Marginal utility of income
2. Welfare weights
3. Altruism and social preferences


Text: Policy and Choice, Chapter 6: Poverty and Inequality

Session 4: Externalities, Internalities, and Public Goods
1. Externalities
2. Internalities
3. Public goods


Text: Policy and Choice, Chapter 5: Externalities and Public Goods

Session 5: Asymmetric Information
1. Moral hazard
2. Adverse selection
3. Uninformed, biased, and overconfident agents

Text: Policy and Choice, Chapter 4: Asymmetric Information
Session 6: Market Power
1. Natural monopolies, government granted monopolies, and market power
2. Deadweight loss
3. Customer outrage


Part 2: Government Policy Making in a World of Behavioral Agents

Session 7: Taxation I
1. Efficiency costs of taxation and tax burden
2. Optimal taxation

Text: Policy and Choice, Chapter 7: Taxation and Revenue

Session 8: Taxation II
1. Tax salience
2. Tax aversion and framing
3. Tax compliance and avoidance

Article: “The ‘tax aversion’ effect is real, and can sway our opinion on anything” Stian Reimers, The Conversation, 5/11/2016.

Session 9: Pigouvian Taxation and the Coase Theorem
1. Pigouvian taxation
2. Coase theorem and transaction costs
3. Endowment effects

Session 10: Forced Savings (e.g., Social Security)
1. Permanent income hypothesis
2. Quasi-hyperbolic discounting


Session 11: Regulation
1. Worker and customer safety
2. Equal protection rules
3. Omission vs. commission

   Article: General Nondiscrimination Requirements Section of “ADA Update: A Primer For Small Business” U.S. Department of Justice, Civil Rights Division, Disability Rights Section
   Article: “Fur and fury at 40,000 feet as more people bring animals on planes” Karin Brulliard, Washington Post, 1/22/2018.

Session 12: Bans and Mandates
1. Paternalism
2. Repugnance
3. Norms


Session 13: Licensing Requirements
1. Costs and benefits of licensing
2. Limits to customer information
3. Reputation systems


Session 14: Review Session

Session 15: First Exam
Part 3: Firm Behavior in a World of Behavioral Agents

Session 16: Pricing to Biased Consumers
   1. Two-part tariffs
   2. Quasi-hyperbolic consumers
   3. Naïves vs. sophisticates


Session 17: Shrouded Attributes
   1. Bundled pricing
   2. Myopia vs. sophistication


Session 18: Behavioral Workers and Managers
   1. Social comparisons
   2. Pay inequity


Session 19: Moral Hazard in the Firm
   1. Principal-Agent problem and solutions
   2. Gift Exchange
   3. Gamification

   Article: “If Workers Slack Off, the Wristband Will Know. (And Amazon Has a Patent for It.)” Ceylan Yeginsu, New York Times, 2/1/2018
Part 4: Applications
Note: These lectures will be organized around a central question, usually include a guest speaker and involve a combination of debate and discussion as we use the tools developed in the previous lectures to pursue optimal policy design.

Session 20: Should we tax soda? [Guest speaker, Professor Benjamin Lockwood]


Session 21: What should affordable housing look like? [Guest speaker TBD]

Article: First 10 Sections of “How Burrowing Owls Lead To Vomiting Anarchists (Or SF’s Housing Crisis Explained)” Kim-Mai Cutler, Tech Crunch, 4/14/2014

Session 22: How should we regulate guns? [Guest speaker, Professor Philip Cook]


Session 23: How should we address climate change? [Guest speaker TBD]

Article: “Reckoning with climate change will demand ugly tradeoffs from environmentalists — and everyone else” David Roberts, Vox, 1/27/2018

Session 24: What public goods should cities provide? [Guest speaker TBD]


Session 25: How much market power is too much market power? [Guest speaker TBD]

No reading required

Session 26: Group Project Presentations

Session 27: Group Project Presentations

Session 28: Review Session