

## **BEPP 620: BEHAVIORAL ECONOMICS, MARKETS, AND PUBLIC POLICY**

**University of Pennsylvania The Wharton School**

**Professor: Judd B. Kessler**

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Office Hours: Thursday 1:30-2:50 in SHDH 1454

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Office Hours: Tuesday 3:30-5pm in SHDH 105

Behavioral economics applies insights from psychology to the study of economic phenomena. This course will take the possibility of deviations from rational, self-interested behavior as a starting point, and explore two main questions: What does behavioral economics imply for public policy? What does behavioral economics imply for firms' behavior in markets?

Both governments and firms have to set policy in a world of behavioral agents. This course will present the standard economic approaches to these policy problems and explore how optimal policy is altered when individuals act in behavioral ways.

The majority of the class focuses on the role of behavioral economics in determining whether and how government should intervene in markets — including what policy makers should do to address market failures, combat poverty and inequality, and raise revenue (i.e., “Behavioral Public Finance”). The next few lectures will explore how firms price and produce in a market with behavioral agents and will examine whether the market can succeed at eliminating behavioral biases. The remaining lectures will explore specific policy questions, allowing us to debate optimal policy solutions while hearing from academics and 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 chapters of the text, executive summaries of policy reports, short research articles, or excerpts from longer research articles).

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

<b>First exam</b>	20%
<b>Second exam</b>	30%
<b>Homework</b>	30%
<b>Class participation</b>	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.

Any evidence of cheating is sent immediately to the Dean.

**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 has no formal prerequisites but an understanding of the principles of consumer and producer optimization will be helpful.

## Course Outline

### Part 1: Foundational Concepts with Behavioral Agents

#### **Session 1: Course Introduction (1/16)**

1. Overview of the course
2. What is behavioral economics?

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

[https://www.brookings.edu/wp-content/uploads/2016/07/policyandchoice\\_book.pdf](https://www.brookings.edu/wp-content/uploads/2016/07/policyandchoice_book.pdf)

#### **Session 2: Welfare Economics (1/23)**

1. Utility
2. The Pareto frontier
3. The first and second welfare theorems and their assumptions

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

[https://www.brookings.edu/wp-content/uploads/2016/07/policyandchoice\\_book.pdf](https://www.brookings.edu/wp-content/uploads/2016/07/policyandchoice_book.pdf)

#### **Session 3: Market Power (1/28)**

1. Price Taking
2. Natural monopolies
3. Other sources of market power
4. Customer outrage

Article: "[Outcry Over EpiPen Prices Hasn't Made Them Lower](#)" Charles Duhigg, New York Times, 6/4/2017.

Article Pair: "[Stop the Bots From Killing Broadway](#)" Lin-Manuel Miranda, New York Times, 6/7/2016 and "[Hey, Miley Cyrus...wanna make more money?](#)" Suzanne McGee, Chicago Booth Review, 5/20/2014.

**Session 4: Externalities, Internalities, and Public Goods (1/30)**

1. Externalities
2. Internalities
3. Public goods

Article: Jonathan Gruber “[Smoking’s ‘Internalities’](#)” *Regulation* Winter 2002-2003, 25(4): 52-57.

Article: “[Lessons on road congestion from Oregon, Singapore and London](#)” Robert Wright, *Financial Times*, 12/8/2017

Article: “[Deleting Facebook Won’t Fix the Problem](#)” Anand Giridharadas, *New York Times*, 1/10/2019

**Session 5: Asymmetric Information (2/4)**

1. Moral hazard
2. Adverse selection

Article: “[No Tuition, but You Pay a Percentage of Your Income \(if You Find a Job\)](#)” Andrew Ross Sorkin, *New York Times*, 1/8/2019

Article: “[The ‘moral hazard’ of naloxone in the opioid crisis](#)” Megan McArdle, *Washington Post*, 3/8/2018

**Session 6: Inequality and Redistribution (2/6)**

1. Marginal utility of income
2. Welfare weights
3. Altruism and social preferences

Article: “[Rethinking Redistribution](#)” Jeffrey A. Miron, *National Affairs*, Winter 2011

Article: “[Big Government Is Back Thanks to Trump](#)” Noah Smith, *Bloomberg*, 6/15/2018

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

**\*\*First homework due at the start of class 2/11\*\***

**Session 7: Taxation I (2/11)**

1. Efficiency costs of taxation
2. Tax burden
3. Optimal taxation

Article: "[After \\$238M condo sale, calls for pied-à-terre tax are renewed](#)" Amy Plitt, Curbed, 2/1/2019

Article: "[Now for the Hard Part: Getting Californians to Buy Legal Weed](#)" Thomas Fuller, New York Times, 1/2/2019

**Session 8: Taxation II (2/13)**

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.

Article: "[Trump's Trade War Enters a Dangerous New Phase](#)" Tyler Cowen, Bloomberg, 9/18/2018

Article: "[Trump Tax Cuts Are \(Probably\) About to Become a Political Disaster](#)" Eric Levitz, New York, 2/8/2019.

**Session 9: Pigouvian Taxation and the Coase Theorem (2/18)**

1. Pigouvian taxation
2. Coase theorem and transaction costs
3. Endowment effects

Article: "[Your Taxi or Uber Ride in Manhattan Will Soon Cost More](#)" Winnie Hu, New York Times, 1/31/2019.

Article Pair: "[Don't Want Me to Recline My Airline Seat? You Can Pay Me](#)" Josh Barro, New York Time, 8/27/2014. and "[The economics of reclining your airplane seat aren't so simple](#)" James Johnson, Washington Post, 9/4/2014.

**Session 10 cancelled due to weather (2/20)**

**Session 11: Forced Savings (L10) (2/25)**

1. Permanent income hypothesis
2. Quasi-hyperbolic discounting

Article: "[Why It's So Hard to Put 'Future You' Ahead of 'Present You'](#)" Tim Herrera, New York Times, 9/10/2018.

Article: "[You Tell People To Save-- Why Don't They Do It?](#)" Teresa Ghilarducci, Forbes, 2/14/2018

**Session 12: Regulation (L11) (2/27)**

1. Solving adverse selection

Article: "[Is It Time to Regulate Social Media Influencers?](#)" Simon Owens, New York Magazine, 1/17/2019.

Article: "[Fur and fury at 40,000 feet as more people bring animals on planes](#)" Karin Brulliard, Washington Post, 1/22/2018.

**Session 13: Licensing, Bans and Mandates (L12-13)**

1. Occupational Licensing
2. Bans and Mandates

Article (L12): "[Occupational licensing blunts competition and boosts inequality](#)" The Economist, 2/17/2018.

Article (L13): "[Vaccination rate jumps in California after tougher inoculation law](#)" Soumya Karlamangla and Rong-Gong Lin II, Los Angeles Times, 4/13/2017.

Article (L13): "[A New York Plastic Bag Ban: What Is Cuomo Proposing and Is It a Good Thing?](#)" Michael Gold, New York Times, 1/15/2019.

Article (L13): "[Why ban payment to kidney donors but not football players?](#)" Philip Cook and Kim Krawiec, The News&Observer, 2/1/2018.

**\*\*Second homework due at the start of class 3/13\*\***

**Session 14: Review Session (3/13)**

No reading required

**Session 15: First Exam (3/18)**

Part 3: Firm Behavior in a World of Behavioral Agents

**Session 16: Pricing to Biased Consumers (3/20)**

1. Quasi-hyperbolic consumers
2. Overconfident consumers

No reading required

**Session 17: Shrouded Attributes (3/25)**

1. Bundled pricing
2. Myopia vs. sophistication

Article: "[How Terrible Is Spirit Airlines, Really?](#)" Derek Thompson, The Atlantic, 11/7/2013.

Article: "[What your credit card offers say about you](#)" Antoinette Schoar, MarketWatch, 9/27/2016.

**Session 18: Behavioral Workers and Managers (3/27)**

1. Social forces

Article: "[How rubber chickens and wind-up teeth can motivate workers](#)" Kathryn Vasel, CNN Business, 2/28/2019

**Session 19: Behavioral Workers and Managers II (4/1)**

1. Pay inequity
2. Gift exchange
3. Control

Article: "[If Workers Slack Off, the Wristband Will Know. \(And Amazon Has a Patent for It.\)](#)" Ceylan Yeginsu, New York Times, 2/1/2018

Article: "[Lotto Tickets Are Nice, Boss, but Can I Have My Bonus?](#)" Noam Scheiber, New York Times, 3/11/2018

Part 4: Applications

Note: These lectures would be organized around a central question, include a guest speaker (potential speakers / speaker types listed), and involve a combination of debate and discussion as we use the tools developed in the previous lecture to pursue optimal policy design.

**\*\*Third homework due at the start of class 4/3\*\***

**Session 20: Soda Taxes (4/3)** [Guest speaker, Professor Benjamin Lockwood]

No reading required

**Session 21: Affordable Housing (4/8)** [Guest speaker, Former San Francisco BART Board Member Nick Josefowitz]

Article: "[Rent Control](#)" San Francisco Tenants Union

Article: "[Single-Family Zoning Is an Urban Dinosaur](#)" Noah Smith, Bloomberg, 12/14/2018

Article: "[Ending single-family zoning is wrong](#)" Walt Hellman, Portland Tribune, 4/3/2019

**Session 22: Gun Control (4/10)** [Guest speaker, Professor Philip Cook]

Chapters 2 and 3 of "The Gun Debate: What Everyone Needs to Know" by Philip J. Cook and Kristin A. Goss

**Session 23: Corporate Social Responsibility (4/15)** [Guest speakers: Manager of Social Impact at Saxbys, Grace Manning, and Manager of Talent Development at Saxbys, Allie Bassman]

No reading required

**Session 24: Gender Wage Gap / Paid Family Leave (4/17)** [Guest speaker, Professor Corinne Low]

No reading required

**Session 25: How much market power is too much market power? (4/22)** [Guest speaker, FTC Commissioner Rohit Chopra]

No reading required

**\*\*Group projects due by midnight on 4/22\*\***

**Session 26: Group Project Presentations (4/24)**

No reading required

**Session 27: Group Project Presentations (4/29)**

No reading required

**Session 28: Review Session (5/1)**

No reading required

**Final Exam:** scheduled for **Thursday, May 9 from 9:00-11:00 a.m.**

as per [https://www.registrar.upenn.edu/pdf\\_main/19A-Final-Exam-Listings-04-30-19.pdf](https://www.registrar.upenn.edu/pdf_main/19A-Final-Exam-Listings-04-30-19.pdf)