Specialization: Behavioral and Experimental Economics

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Field course: Behavioral and Experimental Economics

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What do people actually maximize?

Imagine you have just completed your master's degree in economics and receive two job offers:

Job A
Salary: €40,000
Others with the same job earn: €43,000

Job B
Salary: €38,000
Others with the same job earn: €35,000

Which job would you choose?

Which job would make you happier?

Why is this puzzling to standard economic theory?

- Individuals have well-defined preferences
- Preferences are defined over own outcomes
- Higher income implies higher utility

Therefore:

The job that is preferred should also make the individual happier.

But many people give **different answers** to the two questions.

What behavioral economics does differently

Behavioral economics:

- Takes the **standard economic model** as a benchmark
- Studies **systematic deviations** from its predictions
- Uses (experimental) evidence to understand **which assumptions matter**

The goal is **not** to abandon economic theory, but to **improve its explanatory and predictive power** by incorporating insights from psychology and other disciplines.

How experiments help us study economic behavior

Experiments allow us to:

- Observe decisions in **controlled environments**
- Isolate the role of **specific assumptions**
- Identify **causal effects** in choice behavior

Experimental evidence helps distinguish *model misspecification* from *random noise*.

What we cover and how

Content

Behavioral decision theory
Judgment under risk, beliefs, framing, loss aversion prospect theory

Intertemporal choice
Time preferences, self-control, present bias

Behavioral game theory
Strategic reasoning and cognitive limitations

Social preferences
Fairness, reciprocity, cooperation, trust

Procedure

- Review standard **theory** and **predictions**
- Highlight **systematic departures** observed in data and **in-class experiments**
- **Introduce alternative, behavioral models**

Why this matters

Behavioral and experimental economics helps us:

- better understand **individual decision-making** when standard assumptions are too restrictive
- improve **economic predictions** in markets, organizations, and strategic interaction
- design **policies and institutions** that take actual behavior into account

Importantly, these insights complement - rather than replace - standard economic analysis.

Assessment

Midterm exam	40%
Final exam	40%
Problem sets	20%

Problem sets are discussed in class and focus on applying core concepts.

Grading scheme of the course

Points	Grade
100-90	1
89-80	2
79-70	3
69-60	4
<60	5

Research and Policy Seminar: Behavioral and Experimental Economics

Nina Xue, Ph.D.

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Experimental Economics in a nutshell

Experimental economics = a method to analyze human behavior in a controlled environment that allows for causal inference using randomized control-trials

Laboratory experiments:

+ Control
- "Artificial" situation

Field Experiments:

- Less control
+ Natural situation

Overview

Students get theoretical **input** on **how to design an economic experiment**.

- Objectives of experiments
- Components of an experimental design
- Commonly used methods
- Quality criteria and paradigms
- Sample size calculations
- Hypotheses testing
- Incentives
- Practical suggestions

Overview

- Then, students will **work on an experimental project** of their own (in **groups**) throughout the semester.
  - Formulate a research question
  - Develop a specific experimental design to test it
  - Establish a pre-analysis plan
  - Write a research paper
- Groups will by coached by the lecturer.

Grading

- Presentation (30%)
  - Motivation
  - Related literature
  - Research question
  - Experimental design

- Discussant for another group (10%)
  - Feedback on research question and experimental design

- Research paper (70%)
  - Motivation
  - Related literature
  - Research gap
  - Research question
  - Experimental design and procedure
  - Hypotheses
  - Pre-analysis plan
  - Limitations

Project ideas

- Proposed by students or based on some suggestions
- For example
  - Social identity and decision making
  - Explaining information avoidance
  - Effects of affirmative action policies
  - Diversity in groups
  - When are women more willing to become leaders
  - …..

- If you are interested in following up with a master thesis, you can …
  - program and run the experiment for real (at WULABS or online)
  - apply for funding (WU merit-based and need-based scholarship grants)