ECON 490-01 Experimental and Behavioral Economics

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Syllabus
ECON 490: Experimental and Behavioral Economics
Fall 2015

Instructor: Clay McManus
Class Meeting: MWF 10:00-10:50am in Smith Hall G30
Email: mcmunust1@xavier.edu
Office: Smith Hall 321
Office Hours: MWF 11am-12pm and 1-2pm or by appointment

Prerequisites: ECON 200, 201; STAT 210

Course Description
This is an advanced undergraduate course that will jointly cover topics from experimental economics and behavioral economics. Experimental economics is a methodology for studying economic behavior in controlled environments, like laboratories. As an alternative to empirical analysis with naturally-occurring data, experiments allow researchers to carefully control the information and incentives that affect behavior.

Among other things, early experimental economists found that people often behaved in a manner that wasn’t in their own self-interest, at least as explained by classical economic models. Why do people donate to charity? Why do people pay more for something than it is worth to them? Why do people procrastinate? How can it make sense that a person who refuses to sell a mug for $5 will also refuse to buy that mug for $5 if given the cash instead? These types of behaviors are at odds with classical economics, but we see them all the time in the real world. The field of behavioral economics, drawing largely from psychology, broadens economic theory to explain these sorts of behaviors and others that don’t fit the rational choice model.

In this course, we will blend learning experimental economic methods with studying behavioral and classical economic theory. Just as you might learn about wages and education while studying econometrics, we will learn about behavioral economics and other topics while learning how to apply experimental economics as an analytical tool.

Learning Goals: By the end of this course, students will:

- Understand experimental economics methodology and learn the prominent ways it has been used to inform our understanding of economic decisions.
- Be able to critically assess the relative strengths and weaknesses of economics experiments and what they can actually tell us about the real world.
- Understand a broad set of insights from the field of behavioral economics and be able to apply them to better explain real-world behavior.
- Be able to design an economics experiment that cleanly tests microeconomic theory.
- Use experiment data to empirically test a hypothesis and write an economic paper to present the findings, relating them to the underlying theory and existing results in the literature.
Course Materials

We will have some required readings that serve to provide background information, reinforce what we're learning in class, and expose you to both seminal and frontier research in the fields of experimental and behavioral economics. All of these readings and all other supplemental material will be posted on Canvas.

We will conduct some classroom experiments using VeconLab. If you haven’t already, you will need to register (it’s free) and log in here: http://veconlab.econ.virginia.edu/login.htm

VeconLab is a companion to the textbook Markets, Games, and Strategic Behavior by Charles A. Holt. (ISBN:0-321-41931-6). This book is not required for this class, but it can be a useful supplement for what we cover in class and other readings, especially for verbal/solitary learners.

Class Environment

Everyone is expected to contribute to learning in the classroom by being prepared and actively participating every day. Students are responsible for having done any required readings and should be prepared to discuss the day’s material. Everyone is expected to treat each other with respect, and I will treat you all respectfully.

Laptops and cell phones may not be used during class. The course material is not conducive to note-taking on a laptop (lots of math, graphs, tables, etc.) and using them for other purposes is distracting to others. Please be considerate and put your phone away for the time we are together. You can wait until after class to text your friends, Tweet about how much you’re learning in Econ class, Facebook friend the girl/guy you met at Bull Market before class, update your fantasy football roster, Instagram the 300 selfies that you took with your friends last night, or check MySpace for the first time since middle school. Students who are texting or otherwise using their phones in class will have their participation grade reduced at the instructor’s discretion.

How to be Successful in this Class

This is an advanced course and you should expect to be challenged and to learn a lot. Otherwise, I’m failing at my job. To be successful, it is important that you keep up with assigned readings and out-of-class work and make steady progress on your research project. Come to class prepared to actively participate in experiments and discussions.

Note: I look forward to getting to know each of you, but I may not get to know you well enough to gauge how satisfied you are with your performance in my class. For some students, a B+ is a great grade and other students are only satisfied with an A. If you are unhappy with the grades you are earning, it is your responsibility to come and see me so that we can work together to improve your performance. I won’t change any grades retroactively, but I will work with you to help improve your performance going forward. I genuinely want everyone to be successful in this class, both in what you learn and the grades that reflect it. I will make every reasonable effort to help you succeed, and do so gladly, but you have to meet me in the middle by communicating your concerns and then by making the effort on your part to improve.
**Grading and Course Expectations:** The course grade will be based upon the following:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Participation, Quizzes, Daily Stuff</td>
<td>20%</td>
</tr>
<tr>
<td>Two Exams (Midterm &amp; Final)</td>
<td></td>
</tr>
<tr>
<td>Higher Grade</td>
<td>30%</td>
</tr>
<tr>
<td>Lower Grade</td>
<td>20%</td>
</tr>
<tr>
<td>Research Paper</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Participation, Quizzes, Daily Assignments**
Active participation and regular attendance are important determinants of success in this class, although there is not a mandatory attendance policy. Exams will primarily test over material covered in class, so students are strongly encouraged to attend every class. Active participation and performance in class activities and on quizzes and homework assignments – e.g., practice exercises, writing brief summaries or responses to assigned readings (<1/2 page) – will account for 20% of the course grade.

**Exams:**
There will be a midterm on Friday, Oct. 16th during normal class time and a final exam on Wednesday, Dec. 16th at 10am. The exams will cover material from lectures, assigned readings and homeworks, experiments, and class discussions, but your class notes will be the best study tool. Of the two exams, each student’s higher score will count towards 30% of his/her overall course grade, and the lower score will count towards 20% of the course grade.

**Research Paper:** Students must design their own experiment to answer an original research question. To satisfy the requirements for this course, students will submit a written proposal for the experiment, which should be 10-15 pages and include an introduction, literature review, experiment design, predictions, intended empirical analysis, proposed sample size and budget, and conclusion.

Students wishing to use their research for their senior capstone project must go a few steps further to satisfy the requirements for ECON 491. They will be required to run their experiments during the semester and write a complete research paper – rather than a proposal – that includes the results. Getting this done by December will require hitting an accelerated set of deadlines, and students must stay on track if they are to run their experiments in time and gather the data necessary to write a complete paper (and satisfy the requirements for 491). This also requires an experiment design that can be ran with the time and resources available during the semester.¹ My suggestion is that, if possible, these should be lab experiments with straightforward instructions that can be ran in less than 20 or 30 minutes. We will discuss scheduling these experiments and other logistics in class.

Students who are not doing a capstone project may still choose to run their experiments and write a complete paper rather than a proposal, but they must meet the same accelerated deadlines. There will not be a grade incentive for writing a complete paper. A well-written

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¹ For example, John List ran a field experiment where he gave teachers a performance bonus at the beginning of the year that they had to give back if their students didn’t improve to a certain level by the end of the year and found that this improved learning outcomes more than offering the bonus at year end. It’s a neat experiment and John could’ve written a great proposal for this class on it, but he couldn’t have run it in time to make it his capstone. Similarly, a lab experiment that requires 300 subjects or 2 hours to run probably won’t be feasible either.
research proposal satisfies the requirements for this course and can earn full credit for the
assignment. The research project – whether a proposal or a complete paper – will account for
30% of the total grade. More information on the requirements and deadlines for the paper will be
given out in the first week of class.

Experiments
There will be regular experiments during class time that serve as learning exercises. Further,
students will participate in one another’s experiments to provide the necessary subject pools for
everyone’s research. Decisions and performance in experiments will not affect student’s grades
or academic standing in any way and neither will choosing not to participate (provided students
are in attendance and attentive during the experiment). To incentivize decisions, students will
earn tokens in each experiment. Depending on the experiment, student earnings may depend on
their own choices, others’ choices, and random chance. At the end of the semester, students will
be able to use the tokens they’ve earned to bid on retail items in an auction during class.
Decisions and earnings in experiments will be confidential and used only by the instructor to
tally token earnings. Students conducting their own experiments in class will have access to
anonymous data only – that is, decisions and performance will not be linked to participants’
names or other identifying information.

Grading Scale

<table>
<thead>
<tr>
<th>Grade</th>
<th>Minimum</th>
<th>Maximum</th>
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<tbody>
<tr>
<td>A</td>
<td>93+</td>
<td>100</td>
</tr>
<tr>
<td>A-</td>
<td>90-92</td>
<td></td>
</tr>
<tr>
<td>B+</td>
<td>87-89</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>83-86</td>
<td></td>
</tr>
<tr>
<td>B-</td>
<td>80-82</td>
<td></td>
</tr>
<tr>
<td>C+</td>
<td>77-79</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>73-76</td>
<td></td>
</tr>
<tr>
<td>C-</td>
<td>70-72</td>
<td></td>
</tr>
<tr>
<td>D+</td>
<td>67-69</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>63-66</td>
<td></td>
</tr>
<tr>
<td>D-</td>
<td>60-62</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>&lt;60</td>
<td></td>
</tr>
</tbody>
</table>

Grades are rounded to the nearest whole number, e.g. 89.50 is an A- and 89.49 is a B+.

Missed Exams and Late Assignment Policies

There will be no makeup exams given without a valid excuse. The instructor must
approve any absence in advance. In the case of an excused absence, students must provide the
proper documentation to the instructor at least two days before the exam will be missed. In the
event of illness, students must provide the instructor with a doctor’s note within three days of the
missed exam. Per the student handbook, students participating in approved University activities
should speak with the instructor no later than the second week of class or as soon as information
about the absence is known.

Daily participation and experiment grades cannot be made up. They will be dropped
from the average if the absence is excused and a 0 otherwise. Late homework assignments must
be turned in by the start of the following class period unless a documented excuse extends
further.

The highest grade that any late assignment can receive is equal to the lowest grade earned
by an assignment that was on time. This is a matter of fairness: given more time, that student
could have improved his/her grade as well.
Fine Print Stuff

Drop Dates:  
August 30   Last day to add or drop without a “W”
November 23  Last day to drop with a “W”

Academic Honesty: Cheating on a graded assignment or plagiarism will result in a grade of zero and be reported to the Dean. If you aren’t sure if something is cheating or plagiarism, ask me.

Disability Statement: Any student who feels s/he may need an academic accommodations based on the impact of a disability (e.g. sensory, learning, psychological, medical, mobility) should contact me privately to discuss specific needs. The Disability Services Office verifies student eligibility for accommodations related to documented disabilities. Students seeking accommodations will need to contact them at 513-745-3280 in Room 514 of the Conaton Learning Commons if they have not already done so.

Office of Student Success:  
Location:  514 Conaton Learning Commons  
Phone:     513-745-3036  
Email:     studentretention@xavier.edu  
The Staff in the Office of Student Success is available to assist students to make the most of their Xavier experience.  Personal staff consultations, success coaching, referrals to on-campus Solution Centers, and guiding students to effectively navigate their college experience are central to our work. Please visit www.xavier.edu/student-success to learn more or visit them in the Conaton Learning Commons.

Disclaimer: The instructor reserves the right to revise, alter and/or amend this syllabus as necessary. Students will be notified by email of any such revisions, alterations and/or amendments.

Feedback: I have taught economics to undergraduate and graduate students for five years, but I am constantly working to improve my teaching and the courses that I teach. This will be especially true here in my first year with you all at Xavier and teaching a new class. I value any feedback that you would like to give regarding my teaching, the organization of this course, the assignments, and anything else. Seriously, I do, positive and negative. Please feel free to talk with me after class, come by my office, or send me an email. I look forward to working together to achieve our learning goals in this course.

Planned Topics: Why run experiments; How to ask good questions; Basic experimental methodology; Econometrics review; Public goods; Coordination games; Intro to behavioral economics; Distributional preferences; Treatment and experimenter demand effects; Audience effects/social pressure; Overconfidence; Stereotype threat; Priming; Gender and competition; Individual decision making under uncertainty; Risk preferences; Loss-aversion; Endowment effects; Time discounting; Commitment devices; Information; Cascades; Market bubbles; Institutions and Mechanism design; Auctions; Voting; Salience; Attention; Choice overload; Experiments in business
Information from the Williams College of Business:

**WCB UNDERGRADUATE PROGRAM LEARNING GOALS AND OBJECTIVES:**
The Williams College of Business has chosen to emphasize the following learning goals in the curriculum for the undergraduate business program. The specific learning objectives supported by required coursework in Economics 200, Microeconomic Principles, are highlighted.

**Critical Thinking**
*Learning Goal:* WCB graduates will be able to think logically, reason quantitatively, and utilize appropriate analytical techniques and technology when evaluating and making decisions.
*Learning Objective:*  
  - (1) WCB students will collect, evaluate and synthesize information to offer solutions and support decision making.

**Ethics and Social Responsibility**
*Learning Goal:* WCB graduates will be able to recognize ethical issues, discern moral implications of decision making, and be prepared, and willing, to serve as responsible and professional members of society.
*Learning Objective:*  
  - (2) WCB students will demonstrate the skills necessary to analyze information and make informed, ethical decisions in complex, conflicting or ambiguous environments or situations.

**Effective Written and Oral Communication**
*Learning Goal:* WCB graduates will be able to organize, support and communicate ideas clearly and effectively, employ multiple mediums of communication (e.g., written, oral and visual), and adapt communication to audience, context or purpose.
*Learning Objective:*  
  - (1) WCB students will produce business documents and reports demonstrating their ability to organize and communicate ideas clearly and professionally.

**Global Perspective and Cultural Diversity**
*Learning Goal:* WCB graduates will appreciate the historical and cultural contexts of the world in which they live, demonstrate the competencies required for engaging in global business activities, and respect and value diverse peoples and perspectives.

**Understanding and Application of Knowledge Across Business Disciplines**
*Learning Goal:* WCB graduates will be able to evaluate business from an integrative and holistic point of view, leverage the synergies between functional business areas, and demonstrate college-level mastery of their chosen discipline.
*Learning Objectives:*  
  - (1) WCB students will demonstrate the appropriate knowledge of accounting, economics, finance, management, management information systems, marketing, quantitative business analytics, international issues, and the legal and social environment of business.
  - (2) WCB students will evaluate business problems from an integrative point of view, including diverse business functions, competition and external environment (social, political, economic, and environmental.)

**Personal and Professional Development**
*Learning Goal:* WCB graduates will be well-prepared for their future careers and appreciate the importance of continuous professional development and life-long learning.

*Williams College of Business Mission Statement:*
“We educate students of business, enabling them to improve organizations and society, consistent with the Jesuit tradition”