

Behavioral Economics (LLS)  
305 7<sup>th</sup> Avenue (near 27<sup>th</sup> Street, 11<sup>th</sup> Floor)  
(Support Center for Nonprofit Management)

Tuesdays 6:45 pm – 9:15 pm  
September 15, 2009 –  
November 10, 2009

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### **Overview of the Course:**

Standard economic theory assumes we are all perfectly rational and use all the information we have available to make decisions that maximize our well-being. But we all know people (perhaps including ourselves) who behave in ways that violate this assumption. People spend money they've promised to save for retirement, hold on to stocks they know they should sell, and keep smoking despite committing to quit. These are not random mistakes. They reflect systematic problems in our ability to understand complex situations, to make good decisions today about the future, and to separate factual information from our emotional responses.

Behavioral economics provides models of behavior that allow us to understand why we make mistakes about what will really be in our own best interest. From these models we can extract strategies that enable us to make decisions that are consistent with our true goals and preferences.

### **Major Topics:**

- Behavioral economics vs. standard economic analysis
- Financial mistakes
- Health mistakes
- Using behavioral economics to change behavior
- Behavioral economics and public policy

### **Course Texts:**

Your reading assignments will come primarily from the following texts:

Belsky, Gary and Gilovich, Thomas. 2000. *Why Smart People Make Big Money Mistakes and How to Correct Them*. New York: Simon and Schuster Paperbacks.

Schwartz, Hugh. 2008. *A Guide to Behavioral Economics*. Falls Church, VA: Higher Education Publications, Inc.

Thaler, Richard and Sunstein, Cass. 2009. *Nudge*. New Haven, CT: Yale University Press.

You will also note that in some weeks there are articles assigned in addition to the reading from these books.

I have noted additional reading that you might like to pursue if you find a topic particularly interesting; these recommended readings are marked with an asterisk. I will also distribute in class a list of economics blogs; some are specifically focused on behavioral economics while others have a more general orientation but address behavioral economics topics frequently. I encourage you to follow some of them; they are particularly helpful in providing timely supplemental examples of research, experiments, and anecdotes illustrating the concepts we will study.

As you can see, after a general introduction to standard economics and behavioral economics, we will look at what behavioral economics tells us about behavior in a variety of domains of life. Although the class lectures and discussions will build primarily on the assigned readings, I encourage you to come to class with newspaper articles, blog postings, or other materials that you happen to find that illustrate the concepts of interest for that week's class and we can try to integrate the materials into our discussions.

### **Topics and Reading Assignments**

September 15: The Standard Economic Approach to Decision Making: What It Is and Where It Goes Wrong; Overview of Behavioral Economics

Schwartz: Chapters 1 – 6

Thaler and Sunstein: Introduction

September 22: Biases and Heuristics: Why We Make Mistakes

Schwartz: Chapters 7 - 10

Thaler and Sunstein: Chapters 1 - 5

September 29: Financial Mistakes I

Belsky and Gilovich: Chapters 1 - 5

Thaler and Sunstein: Chapters 6 – 9

October 6: Financial Mistakes II

Belsky and Gilovich: Chapters 6 – 7

Thaler, Richard. 1994. *The Winner's Curse: Paradoxes and Anomalies of Economic Life*. Princeton, New Jersey: Princeton University Press.

October 13: no class

October 20: Doctors' Health Mistakes

Thaler and Sunstein: Chapters 10 – 12

\*Groopman, Jerome. 2007. *How Doctors Think*. New York: Houghton Mifflin Publishers.

October 27: Patients' Health Mistakes

Schwartz: Chapters 8 and 10 (review)

Frank, Richard G. November 2004. "Behavioral Economics and Health Economics." National Bureau of Economic Research Paper 10881.

November 3: Changing Our Own Behavior

Belsky and Gilovich, Conclusion

Schwartz, Chapters 14 - 15

Orszag, Peter. May 29, 2008. "Health Care and Behavioral Economics" (A Presentation to the National Academy of Social Insurance.)

\*Bickel, Warren K., and Vuchinich, Rudy E, editors. 2000. *Reframing Health Behavior Change with Behavioral Economics*. Mahwah, New Jersey: Lawrence Erlbaum Associates.

November 10: Public Policy: How the Government Can Help Change Behavior

Schwartz: Chapters 12 - 13

Thaler and Sunstein: Chapters 13 – 18