Topics in Economic Theory II: Bounded Rationality in Choice-Part II

2017-2018 Academic Year
Master of Research in Economics, Finance and Management

- Topics in Economic Theory II
- Total credits: 3 ECTS
- Code: 32075
- Workload: 75 hours
- Term: 1st

- Type of subject: Optative
- Department of Economics and Business
- Teaching team: Larbi Alaoui
Description of the subject

The traditional models of decision-making in economics are being seriously revised, in light of recent developments in psychology and behavioral economics. In this course, we cover key theoretical developments in modeling non-standard decision-making. This class is designed both for students with a theoretical inclination towards decision theory and for students with an interest in applying these models to various economic settings.

This course complements with the course Bounded Rationality in Choice-Part I, taught by Jose Apesteguia. When taking both parts, the student can develop a single research project for the two parts. In addition, the courses taught by Robin Hogarth (Behavioural Decision Making) and Rosemarie Nagel (Experimental Economics) complement the material covered in these two topics courses, emphasizing other aspects of choice and adopting a more experimental approach.

In addition to the papers listed below, I will make available in the course a Box folder with key recent papers in the field. These will mainly consist of very new working papers that are currently being presented in conferences and seminars, and are at the current frontier of research. We will cover a subset of the topics given below, in a way that will account for students’ preferences.

Outline

2.1 Review of the classical foundations for decision-making under uncertainty. We begin with a review of the seminal models of decision-making under uncertainty, which serve as a foundation for subsequent frameworks.

Main reference:


Others:


2.2 Limited attention and thinking. The study of limited attention and reasoning has grown significantly in recent years, and remains an important topic. We study some of the key contributions in this field.

References:


2.3 Bounded rationality in games. We look at models of strategic behavior that do not assume rationality or common knowledge of rationality. In these frameworks, agents can have cognitive limitation and they can believe that others are cognitively limited.

References:


### 2.4 Temporal inconsistency, self-control, relative preferences and overconfidence.

We introduce time more explicitly. In particular, we consider another manifestation of internal conflict, namely temporal inconsistency. We specifically focus on models of hyperbolic discounting. In addition, we consider the connection between temporal inconsistency and models of overconfidence and self-image. We also analyze relative preferences, including habit-formation, keeping up with the joneses and caring about relative feedback.
References:


2.5 Further topics. Time allowing, we will consider other topics based on student preferences. These may include:

(i) more on costly reasoning
(ii) fairness/reciprocity
(iii) regret/disappointment
(iv) ambiguity aversion
(v) more on temporal inconsistency, self-control, cognitive dissonance.

Assessment and Grading System

Students will select papers from the reading list to be presented in class. Each student presentation should last for around 25 minutes. The number of presentations will depend on the number of students who take the class.

The core of the evaluation will be based on a research project to be presented at the end of the course and turned in. The research project should consist on an original idea that could potentially be converted into a research paper. The content can be theoretical, empirical, or experimental, or a combination of these approaches. Each student must meet with both Jose and I during the term for approval of their chosen topic.

Class participation is also an important component of the course, and is highly valued.