1. Description of the subject

- Topics in Economic Theory I
- Code: 32074
- Total credits: 3 ECTS
- Workload: 75 hours
- Type of subject: Optative
- Department of Economics and Business
- Teaching team: José Apesteguía
- Term: 1st
2. Teaching guide

Introduction

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, empirical and experimental inclination towards the understanding of decision-making, and for students with an interest in applying behavioral decision-making models to various economic settings.

This course complements with the course Bounded Rationality in Choice-Part II, taught by Larbi Alaoui. Students are supposed to take both parts and develop one single research project for the two parts.

Contents

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

Readings:


2.2 Bounded Rationality. The focus of this section is the revealed preference theory of bounded rationality. We will present the most influential boundedly rational models, and discuss the implications of bounded rationality for welfare analysis and the measurement of rationality.

Main readings:


Others:


2.3 Reference-dependence behavior. In this section we adopt a more applied approach, and will focus on what has arguably been the most influential contributions of the bounded rationality and behavioral economics literatures: reference-dependence behavior. We will lay down the basics of the reference-dependent models and emphasize their applications to a number of settings, including finance, labor, insurance, etc.

Main readings:


Others (General):


Applications of reference-dependent models:


2.4 Stochastic Choice. There is renewed interest in understanding choice as the outcome of some random process. Stochastic choice models allow the treatment of choice variability in a stylized way, which ultimately facilitates the introduction of certain behavioral considerations. We will review the classical contributions in psychology and economics. We will then introduce the new developments in the area.

Main readings:

Others:


Assessment and Grading System

When dealing in class with the four broad topics outlined above, students will select a paper from the reading list to be presented in class. Each student is supposed to present one paper in class, for about 25 minutes each. 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 combinations of the former.

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