Syllabus for RPAD 645: Psychological Economics and Policy

Thursdays, 5:45-8:50, Husted 304

Instructor: Stephen Weinberg

Office Hours: Milne 213B, TBD

Should the government attempt to save consumers from themselves? Why do people volunteer? Is it a good idea to keep giving people more and more choices? What are the dangers of group deliberation? What are the psychological landmines in negotiations? What motivates workers? Is it a good idea to pay people to do things they “should” be doing anyway? Why do experts sometimes strongly believe things that just are not true? Can we use marketing techniques to improve the ‘take-up’ of social programs?

This course explores the ways that economists have drawn on psychology to build richer models of human behavior. We will analyze the actual choices of economic decision-makers in the lab and in the field. What are the implications of human psychology for economic policy?

While originally constructed as a course in economic policy, I have reworked the course to be highly relevant for management students as well. Note that I’ve worked with Judith Saidel to make the course work for nonprofit management, and can be used for credit towards a concentration in nonprofit management. Students taking the course for non-profit management credit must choose to do memo 2 on non-profit board management, must choose to do the “A” reading on fundraising for Nov 15, and must choose a non-profit-related topic for their presentation.

Grading

Quizzes: 24%
Presentation: 9%
Memos/Problem Set: 36%
Final Exam: 25%
Class Participation: 6%

Short Quizzes: there will be a short (20 minute) quiz at the beginning of class EVERY WEEK (except, obviously, for the first week, and for the week with the presentation), for a total of 11 quizzes. The quizzes are designed to make sure you come to class ready to discuss that week’s
readings. I will post reading guides telling you what to focus on for the next week’s quiz. **I will drop the 2 lowest quizzes.** The remaining quizzes count for 24% of your grade, combined.

Presentations: Each student will study a different topic and present it to the class. I will assign topics based on your preference rankings. The presentation is worth 9% of your final grade. Why the presentations? There are too many cool topics and great readings to fit them all into the syllabus. This “divide and conquer” strategy lets each of you pick something relevant to you to learn more about, and lets the rest of the class learn a little bit about that topic. Note: if enrollment is high, we may need to have you work in groups.

Memos: you will choose 3 out of 4 memo assignments, 4-5pp each. Each memo is worth 9% of your final grade. The memos ask you to apply various concepts from class to a policy question. **NOTE:** I will grade only 3 memos; you cannot turn in all 4 and drop the lowest one. The FIRST memo is mandatory, so that everyone can get early feedback on the memo process, and so that nobody digs themselves too deep a hole early on.

Problem Set: the material on probability theory will not be comprehensible unless you get your hands dirty with a problem set, so we’re doing one problem set, worth 9% of your final grade.

Final Exam: There will be a final exam during exam week, worth 25% of the final grade.

Class Participation is based on attendance, preparation, and the quality of comments and questions. The default participation grade for good attendance is a B; to do better you’ll have to, you know, participate.

Each assignment will receive a letter grade. To calculate your semester grade, I will convert the final grade to a 4-pt scale (A = 4.0, A- = 3.66, B+ = 3.33, etc). I will then take a weighted average of all your assignments to get your semester score. The score will be converted into a final letter grade with the following thresholds: A: 3.7 or higher; A- : 3.55 to 3.69; B+: 3.2 to 3.54; B: 3.0 to 3.19; B- : 2.60 to 2.99; C+ : 2.25 to 2.59.

**Math**

Much of the reading comes from professional economics articles, and as such includes a fair amount of technical material. You can read around the most technical parts. However, you should be comfortable reading basic algebra equations and the output of regression estimation. You should be able to use the regression results reported in the papers we read as evidence in your memos. The memos and exam are not problem-based. The problem set requires basic algebra, plus some probability theory that I will teach you.
Plagiarism, Working in Groups, and Editing Services

It should, I think, go without saying that you are to abide with SUNY Albany standards for academic honesty.

I encourage you to discuss the course and assignments with your colleagues. However, you must turn in your own work, written in your own words. At no point should you ever work directly off of a colleague’s manuscript of a memo or paper. You must also indicate in a footnote if you received helpful input from someone.

If you use an editing service to help you with the language of your memos and papers, you must actually input any changes into your text yourself. Again, you must acknowledge such help in a footnote. Note that such services are allowed only to help you polish your own work.

Books

Ordered through Mary Jane Books; most of these are also on three-hour reserve at Dewey Library:

Ariely, 2010, *Predictably Irrational: the Hidden Forces that Shape Our Decisions, Revised and Expanded Edition* (isbn 978-0061353246). NOTE WELL: the 2008 edition is nearly the same, but with fewer chapters; however, the chapters have been renumbered. The 2010 edition may have revised the chapters that were carried over from 2008, though I haven’t noticed major differences.


Sunstein, 2006, *Infotopia* (isbn 978-0195340679)

Note: I have created a listmania list on amazon.com with books that I recommend if you are interested in additional reading:

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1 In April, 2011, I could get all 7 of these books on amazon.com for $97.24, with free shipping, or a bit less than a typical economics textbook, such as the one we use in 503.
http://www.amazon.com/RPAD-645-assignments/lm/R1N1APF0K5YCOK. (I set this up solely for your convenience. I receive NO financial benefit from your ordering through amazon.com. Get the books wherever you choose.)

Most other readings are available in full-text through the university library’s website. (Note Well: to access journal articles, use the “Journal Finder” to search for the electronic version of the journal you need, not the regular catalog.) Readings not available in full-text will be made available to you.

Note Well: as a SUNY student, you should not have to pay for National Bureau of Economic Research (NBER) papers; if the nber.org website tries to make you pay for a paper, look for the link for people who think they don’t have to pay, and enter your SUNY e-mail address

With the exception of the first day, all readings should be done BEFORE the class for which they are assigned. The quizzes strongly incentivize you to keep up with the reading....

Note: readings subject to change. The Reading Guides constitute the authoritative assignment for any given week.

* indicates required reading. Readings without a * are listed because I think they may be of interest, or because I may plan to mention them in lecture, but they are NOT required and are NOT fair game for the quiz.

Unit I: Motivation

1. Aug 30: Reciprocity

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2 The readings for the first day of class are unusual, in that I do not expect you to read them in advance. Instead, I will describe them in lecture. However, they are available for use on the memos, and are fair game for the final exam.
2. Sept 6: Motivation and Public Goods

   d. *Sen, 2006, Identity and Violence, prologue, ch1-4

4. Sept 20: Procrastination
   a. *Memo 1: Labor Contracting (mandatory)

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*Very annoyingly, the library’s Journal Finder pulls up the Journal of Economic Issues as the first hit when you search for the Journal of Economic Perspectives. You have to scroll down to the second journal listed.*

5. Sept 27: Group Processes

c. *Jerome K Jerome, 1889, Three Men in a Boat (excerpt)

Unit II: Cognition

6. Oct 4: Attention and Probability

a. Memo 2 due: nonprofit boards

f. *Handout on probability theory

7. Oct 11: Information Processing

a. *Gilovich, 1991, How We Know What Isn’t So, ch1-5, 7
b. *Handout on DNA Evidence
8. Oct 18: Consumer Attention; Confirmation Biases
   a. *Problem Set due
   c. *Feinstein, E-Z Tax paper, introduction only

   a. *Watch Kahneman’s Nobel Prize lecture, http://nobelprize.org/nobel_prizes/economics/laureates/2002/kahneman-lecture.html, from the beginning to 20:30 (watch this FIRST, before reading the articles; it will make the articles easier to follow; the whole lecture is well-worth watching, but only the first 20.5 minutes are required)
   c. *Thaler, “Mental Accounting Matters”

10. Nov 1: Choice Overload
    a. *Schwartz, selected chapters

e. Recommended: Ariely, Predictably Irrational, ch9, 12


Unit III: Applications

11. Nov 8: Negotiation

   a. Memo 3 due (PriceChopper)

   b. *Malhotra and Bazerman, 2007, Negotiation Genius, ch1-5, 7, 9

   c. *Cialdini, 2008, Influence, ch2 (posted to website)

   d. *Harvard Business School case (TBA)

12. Nov 15: Applications

   a. Half the class reads Group A, and half the class reads Group B.

      Group A: Charitable Fundraising


      Group B: Taxes


Unit IV: The Grand Finale

NOV 22: NO CLASS

13. Nov 29: Presentations

14. Dec 6: Libertarian Paternalism

   a. Memo 4: OTDA/NYSaves

   b. *Thaler and Sunstein, “Libertarian Paternalism is Not an Oxymoron”


TBA (probably Dec 13): final exam