BEPP 6200: BEHAVIORAL ECONOMICS, MARKETS, AND PUBLIC POLICY
University of Pennsylvania The Wharton School

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Office Hours: By appointment (Thursday 3:30-4:45pm ET is held for appointments, Vance 315)

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Office Hours: Tuesdays 10:45am-11:45am (Location: ASC 122)

Meeting time and place: TTh, 1:45–3:15pm in JMHH 350 (unless noted otherwise)

Behavioral economics applies insights from psychology to the study of economic phenomena. This course will take the possibility of deviations from rational, self-interested behavior as a starting point, and explore two main questions: What does behavioral economics imply for public policy? What does behavioral economics imply for firms' behavior in markets?

Both governments and firms have to set policy in a world of behavioral agents. This course will present the standard economic approaches to these policy problems and explore how optimal policy is altered when individuals act in behavioral ways.

The majority of the class focuses on the role of behavioral economics in determining whether and how government should intervene in markets — including what policy makers should do to address market failures, combat poverty and inequality, and raise revenue (i.e., "Behavioral Public Finance"). The next few lectures will explore how firms price and produce in a market with behavioral agents and will examine whether the market can succeed at eliminating behavioral biases. The remaining lectures will explore specific policy questions, allowing us to debate optimal policy solutions in a world of behavioral agents.

<u>**Reading:**</u> Most classes will require readings to be done in advance (usually articles from newspapers).

<u>**Grading:**</u> Grades will come from the following sources:

First exam	30%
Second exam	30%
Assignments	30%
Class participation	10%

The exams will cover material from Sessions 1–13 (first exam) and all Sessions (second exam). Assignments will include problems and policy analysis.

<u>Any evidence of cheating is sent immediately to the Dean.</u>

Class Participation: You must come to class prepared. All reading must be completed before class, and you should be ready to discuss the economic concepts and applications when you arrive. Successful participation in class will reflect positively on your class participation grade, as will regular attendance and on-time arrival.

Prerequisites: This course has no formal prerequisites but an understanding of the principles of consumer and producer optimization will be helpful.

Optional Text:
Policy and Choice
https://www.brookings.edu/wp-content/uploads/2016/07/policyandchoice_book.pdf
Chapter 2: Psychology and Economics
Chapter 3: Behavioral Economics and Public Finance

Course Outline

Part 1: Foundational Concepts with Behavioral Agents

Session 1: Course Introduction (8/29)
  1. Overview of the course
  2. What is behavioral economics?

Session 2: Welfare Economics (8/31)
  1. Utility
  2. The Pareto frontier
  3. The first and second welfare theorems and their assumptions

Session 3: Market Power (9/5)
  1. Price taking
  2. Natural monopolies
  3. Other sources of market power

Session 4: Externalities, Internalities, and Public Goods (9/7)
  1. Externalities
  2. Internalities
  3. Public goods

    Article: "Lessons on road congestion from Oregon, Singapore and London" Robert Wright, Financial Times, 12/8/2017
    Article: "Deleting Facebook Won't Fix the Problem" Anand Giridharadas, New York Times, 1/10/2019
    Optional Article: Jonathan Gruber "Smoking's 'Internalities'" *Regulation* Winter 2002-2003, 25(4): 52-57.

Session 5: Asymmetric Information (9/12)
1. Moral hazard
2. Adverse selection

    Article: "[No Tuition, but You Pay a Percentage of Your Income (if You Find a Job)"](#) Andrew Ross Sorkin, New York Times, 1/8/2019
    Article: "[The 'moral hazard' of naloxone in the opioid crisis](#)" Megan McArdle, Washington Post, 3/8/2018

Session 6: Inequality and Redistribution (9/14)
1. Marginal utility of income
2. Welfare weights
3. Altruism and social preferences

    Optional Article: "[Rethinking Redistribution](#)" Jeffrey A. Miron, National Affairs, Winter 2011

First homework due at noon on 9/16 on Canvas

Part 2: Government Policy Making in a World of Behavioral Agents

Session 7: Taxation I (9/19)
1. Efficiency costs of taxation
2. Tax burden
3. Optimal taxation

    Article: "[After $238M condo sale, calls for pied-à-terre tax are renewed](#)" Amy Plitt, Curbed, 2/1/2019
    Article: "[Now for the Hard Part: Getting Californians to Buy Legal Weed](#)" Thomas Fuller, New York Times, 1/2/2019

Session 8: Taxation II (9/21)
1. Tax salience
2. Tax aversion and framing
3. Tax compliance and avoidance

    Article: "[The 'tax aversion' effect is real, and can sway our opinion on anything](#)" Stian Reimers, The Conversation, 5/11/2016.
    Article: "[Trump's Trade War Enters a Dangerous New Phase](#)" Tyler Cowen, Bloomberg, 9/18/2018.
    Article: "[Trump Tax Cuts Are (Probably) About to Become a Political Disaster](#)" Eric Levitz, New York, 2/8/2019.

Session 9: Pigouvian Taxation and the Coase Theorem (9/26)
1. Pigouvian taxation
2. Coase theorem and transaction costs
3. Endowment effects

     Article: "Your Taxi or Uber Ride in Manhattan Will Soon Cost More" Winnie Hu, New York Times, 1/31/2019.
     Article Pair: "Don't Want Me to Recline My Airline Seat? You Can Pay Me" Josh Barro, New York Time, 8/27/2014. and "The economics of reclining your airplane seat aren't so simple" James Johnson, Washington Post, 9/4/2014.

Session 10: Forced Savings (9/28)
1. Permanent income hypothesis
2. Quasi-hyperbolic discounting

     Article: "Why It's So Hard to Put 'Future You' Ahead of 'Present You'" Tim Herrera, New York Times, 9/10/2018.
     Article: "You Tell People To Save-- Why Don't They Do It?" Teresa Ghilarducci, Forbes, 2/14/2018

Session 11: Regulation (10/3)
1. Solving adverse selection

     Article: "Is It Time to Regulate Social Media Influencers?" Simon Owens, New York Magazine, 1/17/2019.
     Article: "Fur and fury at 40,000 feet as more people bring animals on planes" Karin Brulliard, Washington Post, 1/22/2018.

Second homework due at noon on 10/4 on Canvas

Session 12: Licensing, Bans, and Mandates (10/5)
1. Occupational licensing
2. Bans and mandates

     Article: "Occupational licensing blunts competition and boosts inequality" The Economist, 2/17/2018.
     Article: "Vaccination rate jumps in California after tougher inoculation law" Soumya Karlamangla and Rong-Gong Lin II, Los Angeles Times, 4/13/2017.
     Article: "A New York Plastic Bag Ban: What Is Cuomo Proposing and Is It a Good Thing?" Michael Gold, New York Times, 1/15/2019.

<u>**Note: No classes on 10/10, 10/12, 10/17 or 10/19**</u>

Session 13: Review Session (10/24)

Session 14: First Exam (10/26) – <u>In-Person during class</u>, but completed <u>online</u>

Part 3: Firm Behavior in a World of Behavioral Agents

Session 15: Pricing to Biased Consumers I (10/31)
  1. Quasi-hyperbolic consumers

Session 16: Pricing to Biased Consumers II (11/2)
  1. Commitment devices
  2. Overconfident consumers
  3. Shrouded attributes

  Article: "How Terrible Is Spirit Airlines, Really?" Derek Thompson, The Atlantic, 11/7/2013.
  Article: "What your credit card offers say about you" Antoinette Schoar, MarketWatch, 9/27/2016.

Session 17: Behavioral Workers and Managers I (11/7)
  1. Social forces

  Article: "How rubber chickens and wind-up teeth can motivate workers" Kathryn Vasel, CNN Business, 2/28/2019

Session 18: Behavioral Workers and Managers II (11/9)
  1. Pay inequity
  2. Gift exchange
  3. Control

  Article: "If Workers Slack Off, the Wristband Will Know. (And Amazon Has a Patent for It.)" Ceylan Yeginsu, New York Times, 2/1/2018
  Article: "Lotto Tickets Are Nice, Boss, but Can I Have My Bonus?" Noam Scheiber, New York Times, 3/11/2018

Third homework due by noon on 11/10 on Canvas

Session 19: Consumer Outrage and Repugnance (11/14)
  1. Consumer outrage
  2. Repugnance

Article: "Outcry Over EpiPen Prices Hasn't Made Them Lower" Charles Duhigg, New York Times, 6/4/2017.

Article Pair: "Stop the Bots From Killing Broadway" Lin-Manuel Miranda, New York Times, 6/7/2016 and "Hey, Miley Cyrus...wanna make more money?" Suzanne McGee, Chicago Booth Review, 5/20/2014.

Article: "Why ban payment to kidney donors but not football players?" Philip Cook and Kim Krawiec, The News&Observer, 2/1/2018.

Part 4: Applications
Note: These lectures are organized around a central question, include a guest speaker, and involve a combination of debate and discussion as we use the tools developed in the previous lectures to pursue optimal policy design.

Session 20: TBA (11/16)

Session 21: TBA (11/21)

Session 22: TBA (11/28)

Session 23: Review Session (11/30)

Session 24: Second Exam (12/5) – In-Person during class, but completed online