



## **MBE 5104 Behavioral Economics**

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### **Course description**

The aims of this course are: a) to provide a sound and comprehensive presentation of recent psychological findings related to decision making and b) the development of tools in order to analyze economic issues from a non-standard perspective. To this end we will provide an introduction to the field of behavioral economics, emphasizing the methodology and techniques of behavioral economics and their applications to a wide range of real-life business problems. The course is divided in six lectures. After their completion the students will be able to:

- understand the basic principles of behavioral economics and contrast them with traditional economics
- use behavioral economics to explain/predict market phenomena and outcomes
- conduct individual assignments and perform effectively in a group environment

With respect to the topics of individual choice (under certainty and under uncertainty) and collective choice (behavioral game theory), the students will test relevant behavioral phenomena in the Laboratory of Experimental Economics (LEXECON) of the University of Cyprus. They will participate to experiments as participants, but they will also be acquainted with the role of the experimenter and the intricacies of experimental design.

### **Recommended text-books**

- Camerer, C & Loewenstein, G & Rabin, M (2003) *Advances in Behavioral Economics*. Princeton University Press
- Thaler, R (2003) *Quasi rational economics*. Elgar Publishing
- Wilkinson, N (2007) *An Introduction to Behavioral Economics: A Guide for Students* Palgrave Macmillan
- Angner, E (2012, 2106) *A Course in Behavioral Economics* Palgrave Macmillan\*

### **Evaluation**

Exam 60%  
Class participation 10%  
Lab participation 10%  
Homework 20%

## Topics

1. Introduction to Behavioral Economics (Ch. 1)
  - (a) What is BE?
  - (b) BE vs the neoclassical model of economics
  - (c) Basic principles of BE and historical background
  - (d) Fields of applications
  
2. Choice under certainty (Ch. 2, Ch. 3)
  - (a) Rational choice
  - (b) Menu dependence and the decoy effect
  - (c) Loss aversion
  - (d) Anchoring and adjustment
  
3. Choice under uncertainty I (Ch.4, Ch.5)
  - (a) Likelihood of future events: Bayesian approach
  - (b) Likelihood of future events: Heuristic approaches
  - (c) Heuristics and types of probability biases
  - (d) Quasi-bayesian approach
  
4. Choice under uncertainty II (Ch.6, Ch.7)
  - (a) Expected utility and its variations
  - (b) Framing effects
  - (c) Bundling and mental accounting
  - (d) Prospect theory (probability weighting)
  
5. Intertemporal Choice (Ch. 8, Ch. 9)
  - (a) The standard discounted utility model
  - (b) Time inconsistency
  - (c) Hyperbolic and negative discounting
  
6. Behavioral game theory (CH.10, Ch.11)
  - (a) Games and psychology
  - (b) Limited strategic thinking
  - (c) Social preferences, altruism and envy