UG Course Outline
EC5070: Decision Theory and Behaviour
2016/17

AIMS

1. To deepen the students' knowledge of the rational decision making paradigm in economics, as well as its shortcomings identified over the last few decades.
2. To explore behavioural models, their formalization and scope, including applications to interactive settings.
3. To familiarize students with both theoretical and experimental methods for research in decision theory and behavioural economics.

LEARNING OUTCOMES

By the end of this course, students should:

1. Have an advanced-level understanding of the assumptions and usage of standard models of decision making.
2. Have a thorough understanding of the challenges to such models, and of how non-standard (behavioural) models change their assumptions using psychological insights.
3. Understand how to test and examine the scope of such models in situations of economic relevance.
4. Be able to apply independently the theoretical and experimental methods reviewed.

COURSE DELIVERY

The course will be delivered by one 2-hour lecture and one 1-hour seminar over a 10 week period.

Course material will be on Moodle.

ASSESSMENT

- One 2-hour unseen written exam taken in the Summer Term, contributing 75% to the final mark.
• One 1-hour written midterm test in Spring term contributing 25% to the final mark.

Deadlines and dates for tests will be confirmed in the Departmental Student Handbook and on the Economics website.

READING

Please note that the following reading list is only indicative and changes are possible


Kreps, David, A preference for Flexibility, 1979, Econometrica.

U. Malmendier and S. DellaVigna, Paying Not to Go to the Gym, 2006, American Economic Review


TIMETABLE

Please note that the following planned lecture schedule is only indicative and changes are possible.

It may be the case that more (or less) time needs to be spent on certain topics, so the actual lectures may not be in complete correspondence with the plan. Therefore, coverage of topics may sometimes overflow from one session to the other.

**Week 1:** Individual decision making. Revealed preferences and ordinal utility. Cardinal utility and choice under risk.

**Week 2-3:** Expected utility theory. Attitudes towards risk.

**Week 4:** Empirical regularities in decision making. Deviations from the expected utility theory. The Allais paradoxes and probability distortions.

**Week 5:** Prospect Theory: reference points, loss aversion, probability weighing function. Framing and endowment effects.

**Week 6:** Intertemporal choice: exponential discounting.
Week 7: Intertemporal choice: hyperbolic discounting and procrastination.

Week 8: Intertemporal choice: strategic aspects

Week 9: Choices from sets: preference for flexibility

Week 10: Choices from sets: temptation.