

PADM-GP 2139: BEHAVIORAL ECONOMICS AND POLICY DESIGN

Fall Semester 2017, Monday 4:55-6:35

194 Mercer, Room 203

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COURSE DESCRIPTION

Standard economic theory assumes that individuals are fully rational decision-makers; however, that is often not the case in the real world. Behavioral economics uses findings from lab and field experiments to advance existing economic models by identifying ways in which individuals are systematically irrational. This course gives an overview of key insights from behavioral science and identifies ways in which these findings have been used to advance policies on education, health, energy, taxation, and more.

Additionally, this course will review how government agencies and non-profit organizations have used behavioral insights to improve social policy.

PREREQUISITES

CORE-GP 1011: Statistics and CORE-GP 1018: Microeconomics (or equivalent).

REQUIRED READING

Thaler, Richard H., and Cass R. Sunstein. *Nudge: Improving decisions about health, wealth, and happiness*. Yale University Press, 2008.

LEARNING OUTCOMES

1. Learn key theories from the field of behavioral economics.
2. Learn how economists apply insights from lab and field experiments to policy design.
3. Interpret empirical results from research papers for a policy audience.

GRADING

Writing Assignments (5 assignments): 40%

Group presentations: 20%

Final Exam: 30%

Attendance and Participation: 10%

WRITTEN ASSIGNMENTS

Roughly every other week students will read an academic research article and summarize the findings in an opinion piece or a policy brief. See descriptions below.

IN-CLASS EXAM

A final written exam will take place during finals period. Any students with disabilities requiring special exam procedures should contact me as soon as possible.

GROUP PRESENTATIONS

Teams of 5 students will give a roughly eight minute presentation for the class. The first topic will be presenting research on a specific cognitive bias (i.e., summarizing research of others) and the second will be a creative policy design project.

COURSE SCHEDULE

	Lecture	Topics	Overview Reading	Assignments: Due at class start
1	Sept 11	Intro to Prospect Theory	TFS ch.25-26	
2	Sept 18	The Endowment Effect	TFS ch.27	
3	Sept 25	Econometrics Review; Loss Aversion Applications	Econometrics review; Nudge ch.1	
4	Oct 2	Presentation Preparation*		
	Oct 9	FALL BREAK		Memo 1
5	Oct 16	Loss Aversion and Education; Probability Weighting	TFS ch.29	Bias Pres 1
6	Oct 23	Present Bias; Commitment Devices	Nudge, ch.2	Bias Pres 2
7	Oct 30	Defaults and Choice Overload		Memo 2 Bias Pres 3
8	Nov 6	Libertarian Paternalism Debate	Nudge Intro and ch. 9 & 11, Glaeser (2005)	Bias Pres 4 & 5
9	Nov 13	Intrinsic vs. Extrinsic Motivation	Predictably Irrational, ch.4	Memo 3 Bias Pres 6
10	Nov 20	Social Comparison	Nudge, ch.3	Bias Pres 7
11	Nov 27	Scarcity	Scarcity ch. 1&5, NYT article	Memo 4 Bias Pres 8
12	Dec 4	Saliency and Attention	Chetty Senate Testimony	Memo 5
13	Dec 11	Behavioral Economics and the Federal Government: Guest Lecture Will Tucker & Bill Congdon	EO 13707 Guidance; SBST Reports	
14	Dec 12	Group Presentations: Policy Proposals		
15	Dec 18	Final Exam		

*I will be out of town on October 2nd. Please use this time to meet with your presentation groups.

WRITTEN ASSIGNMENT GUIDELINE

Researchers working in public policy must frequently adapt their writing style turning a technical, academic journal article into a policy brief for government officials, a New York Times article, a National Public Radio spot, or a tweet. One of the main goals of this class is to learn to digest academic research to make economics insights understandable to a policy audience. We will focus on two types of policy writing:

- 1) Opinion Editorial (“Op-ed”) Piece
- 2) Policy Briefs

All assignments should be one page maximum (roughly 500 words).

Op-ed Articles

Think New York Times, The Economist, The Atlantic, etc. This type of article describes the policy context and findings from academic research, but also expresses the opinions of the author. These articles are aimed at an audience with little-to-no economics or policy experience and are meant to be informative, but also engaging. Make sure to include the following:

- Description of the policy context
- Related research (mention at least one other article from the literature review)
- Summary of the policy being evaluated and how the policy relates to behavioral economics
- Key finding(s) from the evaluation
- Your personal critique: Do you think this is a good policy? What are your reservations, if any? Can you suggest any other policies based on these findings? Be creative!

Policy Brief

Imagine you just completed an evaluation of a pilot program for a new behaviorally-informed policy and you want to encourage the government to roll-out the program nationwide. If you could only give this government official a one-page summary of the program – what would it say? These briefs differ from op-eds in that they are intended for a more informed audience, but one that may only have a few minutes to read your research. Additionally, they are only interested in your findings, not your opinions. Make sure to include the following (and use these as section headings):

- Policy Objective – goal of intervention
- Behavioral Insight – which behavioral economics theory is being applied?
- Background – policy context
- Methods – sample population, details of policy
- Results – describe results and include one graphical depiction of the main finding
- Conclusion

Examples

- 1) Castleman & Page (2014). “Freshman Year Financial Aid Nudges: An Experiment to Increase FAFSA Renewal and College Persistence”
 - Op-ed: [NYT Article](#)
 - Policy Brief: [SBST Annual Report](#)
- 2) Homonoff (2015). “Can Small Incentives Have Large Effects? The Impact of Taxes versus Bonuses on Disposable Bag Use”
 - Op-ed: [The Conversation](#)
 - Policy Brief: [World Bank Blog](#)

WRITTEN ASSIGNMENTS

Assignment #1: Op-ed for “Enhancing the efficacy of teacher incentives through loss aversion: A field experiment” by Fryer, Levitt, List, and Sadoff

Assignment #2: Policy Brief for "Put Your Money Where Your Butt Is: A Commitment Contract for Smoking Cessation" by Gine, Karlan, and Zinman

Assignment #3: “Nudging Debate” – Op-ed style piece arguing for or against policies that utilize libertarian paternalism.

Assignment #4: Op-ed for “Can a Social Information Nudge Affect Job Choice? Experimental Evidence from Teach for America” by Coffman, Featherstone, and Kessler.

Assignment #5: Policy Brief for "Information Disclosure, Cognitive Biases, and Payday Borrowing" by Bertrand and Morse.

GROUP PRESENTATIONS

Presentation 1: Each group will present on one “heuristic or bias”. Carefully describe the bias and present evidence on how individuals have exhibited this behavior (if possible, I recommend testing your audience to see how they behave!). Additionally, present a few examples of how this could impact behavior in meaningful ways outside of the lab, ideally focusing on economic outcomes (consumption, labor supply, tax compliance, health, etc.). Topics include:

- Availability heuristic
- Representativeness heuristic
- Anchoring and Adjustment
- Hot-hand Fallacy
- Left-digit Bias
- Overconfidence
- Confirmation Bias
- Projection Bias

Presentation 2 (December 12th): Acting as members of the White House’s Social and Behavioral Sciences Team, teams will design a behaviorally-informed policy intervention prepared for federal agency partners. Be specific about the agency you will partner with, the policy problem you are addressing, and evidence from behavioral science that suggests that your policy could be effective at achieving your goal.

ADDITIONAL READINGS

Lecture 1: Loss Aversion

- **Kahneman, Daniel, and Amos Tversky (1979) "Prospect Theory: An Analysis of Decision under Risk", *Econometrica*, XLVII (1979), 263-291.

Lecture 2: The Endowment Effect

- **Kahneman, Daniel, Jack L. Knetsch, and Richard H. Thaler. "Anomalies: The endowment effect, loss aversion, and status quo bias." *The journal of economic perspectives* (1991): 193-206.
- Genesove, David, and Christopher Mayer. "Loss aversion and seller behavior: Evidence from the housing market." *The Quarterly Journal of Economics* 116.4 (2001): 1233-1260.

Lecture 3: Loss Aversion Applications

- Allen, Eric J., Patricia M. Dechow, Devin G. Pope, and George Wu. "Reference-dependent preferences: Evidence from marathon runners." *Management Science* (2016).
- **Pope, Devin G., and Maurice E. Schweitzer. "Is Tiger Woods loss averse? Persistent bias in the face of experience, competition, and high stakes." *The American Economic Review* 101.1 (2011): 129-157.
- Rees-Jones, Alex. "Loss Aversion Motivates Tax Sheltering: Evidence From US Tax Returns." (2014).
- Engström, Per, Katarina Nordblom, Henry Ohlsson, and Annika Persson. "Tax compliance and loss aversion." *American Economic Journal: Economic Policy* 7, no. 4 (2015): 132-164.
- **Homonoff, Tatiana A. "Can Small Incentives Have Large Effects? The Impact of Taxes versus Bonuses on Disposable Bag Use." (2015).

Lecture 4: Loss Aversion and Education; Probability Weighting

- Levitt, Steven D., John A. List, Susanne Neckermann, and Sally Sadoff. "The behavioralist goes to school: Leveraging behavioral economics to improve educational performance." *American Economic Journal: Economic Policy* 8, no. 4 (2016): 183-219.
- **Field, Erica. "Educational Debt Burden and Career Choice: Evidence from a Financial Aid Experiment at NYU Law School." *American Economic Journal: Applied Economics* (2009): 1-21.

Lecture 5: Present Bias & Commitment Devices

- Read, Daniel, George Loewenstein, and Shobana Kalyanaraman. "Mixing virtue and vice: Combining the immediacy effect and the diversification heuristic." *Journal of Behavioral Decision Making* 12.4 (1999): 257.
- **Shapiro, Jesse M. "Is there a daily discount rate? Evidence from the food stamp nutrition cycle." *Journal of Public Economics* 89.2 (2005): 303-325.
- **DellaVigna, Stefano, and Ulrike Malmendier. "Paying not to go to the gym." *The American Economic Review* (2006): 694-719.
- Royer, Heather, Mark Stehr, and Justin Sydnor. "Incentives, commitments, and habit formation in exercise: evidence from a field experiment with workers at a fortune-500 company." *American Economic Journal: Applied Economics* 7.3 (2015): 51-84.
- Ashraf, Nava, Dean Karlan, and Wesley Yin. "Tying Odysseus to the mast: Evidence from a commitment savings product in the Philippines." *The Quarterly Journal of Economics* (2006): 635-672.
- Ariely, Dan, and Klaus Wertenbroch. "Procrastination, deadlines, and performance: Self-control by precommitment." *Psychological science* 13.3 (2002): 219-224.

- Patterson, Rich. "Can Behavioral Tools Improve Online Student Outcomes? Experimental Evidence from a Massive Open Online Course." Working Paper.

Lecture 6: Defaults

- Samuelson, William, and Richard Zeckhauser. "Status quo bias in decision making." *Journal of risk and uncertainty* 1.1 (1988): 7-59.
- **Haggag, Kareem, and Giovanni Paci. "Default tips." *American Economic Journal: Applied Economics* 6.3 (2014): 1-19.
- **Madrian, Brigitte, and Dennis Shea (2001) "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *Quarterly Journal of Economics*, 116: 1149-1187.
- Pallais, Amanda. *Small differences that matter: mistakes in applying to college*. No. w19480. National Bureau of Economic Research, 2013.
- Thaler, Richard, and Shlomo Benartzi (2004) "Save More Tomorrow: Using Behavioral Economics to Increase Employee Savings," *Journal of Political Economy*, February, Vol. 112.1, Part 2, pp. S164-S187.

Lecture 7: Choice Overload & Libertarian Paternalism

- **Johnson, Eric J., and Daniel Goldstein. "Do defaults save lives?" *Science* (2003): 1338-1339.
- Kessler, Judd B., and Alvin E. Roth. "Don't Take 'No' For an Answer: An Experiment with Actual Organ Donor Registrations." No. w20378. National Bureau of Economic Research, 2014.
- Iyengar, Sheena S., and Mark R. Lepper. "When choice is demotivating: Can one desire too much of a good thing?." *Journal of personality and social psychology* 79.6 (2000): 995.
- Iyengar, Sheena S., and Emir Kamenica. "Choice proliferation, simplicity seeking, and asset allocation." *Journal of Public Economics* 94.7 (2010): 530-539.
- **Glaeser, Edward L. *Paternalism and psychology*. No. w11789. National Bureau of Economic Research, 2005.

Lecture 8: Intrinsic vs. Extrinsic Motivation

- **Deci, Edward L. "Effects of externally mediated rewards on intrinsic motivation." *Journal of personality and Social Psychology* 18.1 (1971): 105.
- **Gneezy, U., and A. Rustichini (2000) "Pay enough or Don't pay at All" *Quarterly Journal of Economics*, 791-810.
- Gneezy, Uri, and Aldo Rustichini. "A fine is a price." *The Journal of Legal Studies* 29.1 (2000): 1-17.
- Heyman, James, and Dan Ariely. "Effort for payment a tale of two markets." *Psychological Science* 15.11 (2004): 787-793.
- Ariely, Dan, Anat Bracha, and Stephan Meier. "Doing good or doing well? Image motivation and monetary incentives in behaving prosocially." *The American Economic Review* (2009): 544-555.
- Mellström, Carl, and Magnus Johannesson. "Crowding out in blood donation: was Titmuss right?" *Journal of the European Economic Association* 6.4 (2008): 845-863.
- Lacetera, Nicola, Mario Macis, and Robert Slonim. "Will there be blood? Incentives and displacement effects in pro-social behavior." *American Economic Journal: Economic Policy* 4.1 (2012): 186-223.
- Gneezy, Uri, Stephan Meier, and Pedro Rey-Biel. "When and why incentives (don't) work to modify behavior." *The Journal of Economic Perspectives* 25.4 (2011): 191-209.

Lecture 9: Social Comparison

- Bond, Robert M., et al. "A 61-million-person experiment in social influence and political mobilization." *Nature* 489.7415 (2012): 295-298.

- **Goldstein, Noah, Robert Cialdini, and Vidas Griskevicius (2008). "A Room with a Viewpoint: Using Norm-Based Appeals to Motivate Conservation Behaviors in a Hotel Setting." *Journal of Consumer Research*, Vol. 35, pages 472-482.
- Schultz, P. Wesley, et al. "The constructive, destructive, and reconstructive power of social norms." *Psychological science* 18.5 (2007): 429-434.
- **Allcott, Hunt. "Social norms and energy conservation." *Journal of Public Economics* 95.9 (2011): 1082-1095.
- Allcott, Hunt, and Todd Rogers. "The Short-Run and Long-Run Effects of Behavioral Interventions: Experimental Evidence from Energy Conservation." *The American Economic Review* 104.10 (2014): 3003-3037.
- Allcott, Hunt, and Judd B. Kessler. *The welfare effects of nudges: A case study of energy use social comparisons*. No. w21671. National Bureau of Economic Research, 2015.
- Hallsworth, Michael, John A. List, Robert D. Metcalfe, and Ivo Vlaev. "The behavioralist as tax collector: Using natural field experiments to enhance tax compliance." *Journal of Public Economics* 148 (2017): 14-31.

Lecture 10: Scarcity

- **Bertrand, Marianne, Sendhil Mullainathan, and Eldar Shafir. "A behavioral-economics view of poverty." *The American Economic Review* 94.2 (2004): 419-423.
- **Mani, Anandi, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao. "Poverty impedes cognitive function." *science* 341, no. 6149 (2013): 976-980.
- Shah, Anuj K., Sendhil Mullainathan, and Eldar Shafir. "Some consequences of having too little." *Science* 338.6107 (2012): 682-685.
- Dean Spears (2011) "Economic Decision-Making in Poverty Depletes Behavioral Control," *The B.E. Journal of Economic Analysis & Policy* :Vol. 11: Issue 1 (Contributions), Article 72.

Lecture 11: Salience and Attention

- **Chetty, Raj, Adam Looney, and Kory Kroft. 2009. "Salience and Taxation: Theory and Evidence." *American Economic Review*, 99(4): 1145-77.
- Gallagher, Kelly Sims, and Erich Muehlegger. "Giving green to get green? Incentives and consumer adoption of hybrid vehicle technology." *Journal of Environmental Economics and management* 61.1 (2011): 1-15.
- Chetty, Raj, and Emmanuel Saez. 2013. "Teaching the Tax Code: Earnings Responses to an Experiment with EITC Recipients." *American Economic Journal: Applied Economics*, 5(1): 1-31.
- Finkelstein, Amy. "E-ztax: Tax salience and tax rates." *The Quarterly Journal of Economics* 124.3 (2009): 969-1010.
- Goldin, Jacob, and Tatiana Homonoff. "Smoke gets in your eyes: cigarette tax salience and regressivity." *American Economic Journal: Economic Policy* 5.1 (2013): 302-336.

Lecture 12: Behavioral Economics and Government

- **Executive Order 13707 Guidance Document
- Social and Behavioral Sciences Team, Annual Report (2015, 2016)
- Behavioural Insights Team, Update Report 2013-2015
- World Development Report, "Mind, Society, and Behavior"