Behavioral economics incorporates insights from other social sciences, such as psychology and sociology, into economic models, and attempts to explain anomalies that defy standard economic analysis. Institutional economics is the study of the evolution of economic organizations, laws, contracts, and customs as part of the historical and continuing process of economic development. Behavioral economics and institutional economics are naturally treated together, since so much of the logic and design of economic institutions has to do with complexities of human behavior. Topics include economic fluctuations and speculation, herd behavior, attitudes towards risk, money illusion, involuntary unemployment, saving, investment, poverty, identity, religion, trust, risk management, social welfare institutions, private risk management institutions, institutions to foster economic development.

Course Requirements: midterm exam, take-home final exam of short essay form.

Dates shown are subject to change. There are four items to purchase; three at Yale Bookstore


All other important readings can be accessed by clicking here. Many links rely on Yale subscriptions and so they will not work on a non-Yale computer. Reserve books are at the new CSSSI Library csssi@yale.edu. Other relevant online readings can be found on my [web site](http://www.mywebsite.com). Our workshops in Behavioral Finance and Macroeconomics and Individual Decision Making, and Schmid’s list of reading lists in institutional economics also have additional readings.

* Indicates required reading

**Sept. 3, 2014**

1. **INTRODUCTION AND METHODOLOGY: Macroeconomic Theory and the Current Crisis:**


   *Akerlof and Shiller, Introduction

   *Thaler and Sunstein, Introduction, Chapter 4 “When Do We Need a Nudge? Chapter 5, “Choice Architecture

**Part I: Theory of Behavioral Economics**

**Sept. 5 – FRIDAY – (make-up class)**

2. **Confidence**


   *Thaler & Sunstein, Chapter 1, “Biases and Blunders”


**September 8**

3. **Fairness, Inequality**

   *Sen, Amartya, *Poverty and Famines: An Essay on Entitlement and Deprivation*, Oxford University Press, 1983, Chapter 1, Also on RESERVE

   *Kahneman, pp. 305-8.


September 10
4. Epidemics


*Thaler & Sunstein, Chapter 3, “Following the Herd”

September 15
5. Market Society, Civil Society and Social Movements: Phishing for Phools

Akerlof, George A. Phishing for Phools, Lecture at Duke University 2013. (Excluding for now the discussion of Akerlof and Tong near beginning, start at 14:00)


September 17
6. Prospect Theory

*Kahneman, Chapter 26, pp. 278-99

Kahneman, Daniel, and Amos Tversky, "Prospect Theory," Econometrica 1979, also Appendix A of Thinking Fast and Slow


September 22
7. Neuroeconomics

*Society for Neuroscience, Brain Facts: A Primer on the Brain and Nervous System, pp. 4-9.


September 24
8. Religion


*Indicates required reading
Part II Applications of the Theory: Answering Some Basic Questions

September 29
9. Why Do Economies Fall into Depression?


October 1
10. Why Are Some People Unable to Find a Job?
*Akerlof and Shiller, Chapter 8 “Why Are Some People Unable to Find a Job?”


October 6
11. Why Are There Problems with Borrowing, Collateral, Repurchase?

October 8
12. Why Do Central Bankers Have Power over the Economy?
*Akerlof and Shiller, Chapter 4, “Money Illusion,” Chapter 7 “Why Do Central Bankers Have Power over the Economy, Insofar as They Do?”


* Indicates required reading

Midterm Exam: will be an in-class exam - time, location, date to be confirmed

October 20
13. Why Does Inflation Bring Down Unemployment?
*Akerlof and Shiller, Chapter 9 “Why Is there a Tradeoff between Inflation and Unemployment in the Long Run?”

*Reinhart and Rogoff, Chapter 12, “Inflation and Modern Currency Crashes” RESERVE


October 27  
14. Why Do People Under-save?  
*Akerlof and Shiller, Chapter 10 “Why Is Saving for the Future so Arbitrary?”

October 29  
15. Why Is Asymmetric Information Really a Problem?  
*Akerlof, George, and Hui Tong, Lemons with Naivete, unpublished manuscript, International Monetary Fund, 2012

November 3  
16. Why Do News Media Sometimes Fail US?  

Matthew Gentzkow and Jesse Shapiro


November 5  
17. Why Do Financial Markets Boom and Crash?  
*Akerlof and Shiller, Chapter 11 “Why Are Financial Prices and Corporate Investments so Volatile?”

*Thaler and Sunstein, Chapter 7, “Naïve Investing”

November 7 – FRIDAY (make-up class)  
18. Why Is Efficient Markets Theory a Half Truth?  

* Indicates required reading
November 10
19. Why Do Real Estate Markets Go through Cycles?
*Akerlof and Shiller, Chapter 12 "Why Do Real Estate Markets Go through Cycles?"

November 12
20. Why Does Poverty Persist amidst Economic Growth?
*Akerlof and Shiller, Chapter 13, "Why Is There Special Poverty among Minorities?"

Part III: Institutional Design

November 17
*Thaler and Sunstein, chapters 8, 9, 11, 12

November 19
22. Regulation and Nudges
*Thaler and Sunstein, Chapter 8, "Credit Markets," Chapter 9 "Privatizing Social Security Smorgasbord Style"

Dec. 1
23. Encouraging Saving, Pensions
*Thaler and Sunstein Chapter 6 “Save more Tomorrow"

December 3
24. Democratizing Insurance and Finance

* Indicates required reading


**December 8**

**24. Development and Dynamism**


"Reinhart and Rogoff, This Time Is Different, Chapter 17, "Reflections on Early Warnings, Graduation, Policy Responses, and the Foibles of Human Nature"


* Indicates required reading

**FINAL EXAM** Take home 24-hour, any time within a week shortly after end of classes in December
OPTIONAL SUGGESTED READINGS

Introduction and Methodology: Macroeconomic Theory and the Current Crisis


Wilson, E. O. Consilience: The Unity of Knowledge Knopf, 1998 RESERVE


Popper, Karl R. The Logic of Scientific Discovery Section 1 and Section 20, New York, Science Editions, 1961. RESERVE


Green, Donald and Ian Shapiro, Pathologies of Rational Choice Theory: A Critique of Applications in Political Science, New Haven: Yale University Press, 1996.

Part I: Theory of Behavioral Economics

Confidence

Reinhart and Rogoff, This Time Is Different "Preamble: Some Initial Intuition on Financial Fragility and the Fickle Nature of Confidence," "The This-Time-Is-Different Syndrome" RESERVE


Franklin, Benjamin, " Information to Those who Would Remove to America," The Boston Magazine, October 1784.


Fairness

Arrow, Kenneth J., Why People Go Hungry" (Review of Sen's Poverty and Famines) 1982.


Epidemics


Market Society, Civil Society and Social Movements - Phishing for Phools

Aristotle, *Politics*, Book I (search for term civil society)

Ferguson, Adam, “An Essay on the History of Civil Society” 1819


Polanyi, Karl, *The Great Transformation*


Lonkila, Markku, “The Importance of Work-Related Ties in Post-Soviet Russia: The Role of Co-Workers in the Personal Support Networks in St. Petersburg and Helsinki

**Prospect Theory**


**Neuroscience**


**Religion**


**Part II Applications of the Theory: Answering Some Basic Questions**

**Why Do Economies Fall into Depression?**


**Why Are Some People Unable to Find a Job?**

Louis Uchitelle, *The Disposable American: Layoffs and their Consequences*


**Why Are There Problems with Borrowing, Collateral, Repurchase?**


**Why Do Central Bankers Have Power over the Economy?**


Why Does Inflation Bring Down Unemployment?

Fauvel, Yvon, Alain Guay, and Alain Paquet, "What has the U.S. Phillips Curve Been Up To?" unpublished paper, University of Quebec at Montreal, 2002.


Why Do Financial Markets Boom and Crash?


Why is Information Asymmetry Really a Problem?

Why Is Efficient Markets Theory a Half-Truth?


North, Chapters 9, 10 and 11. RESERVE


Why Do Real Estate Markets Go through Cycles?

Shiller, Robert, *Subprime Solution* Chapters 2, 3, 4 RESERVE


Why Does Poverty Persist amidst Economic Growth?


Part III: Institutional Design

Making Government Social Insurance Work to Reduce Inequality


Regulation and Nudges

Friedman, Milton, *Capitalism and Freedom* 1962


Democratizing Insurance and Finance


Squam Lake Working Group, "Credit Default Swaps, Clearinghouses and Exchanges" 2009.


Development and Dynamism

Danny Rodrik, *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* 2008 Chapter 2 (Growth Diagnostics) and Chapter 3 (Synthesis: A Practical Approach to Growth Strategies) RESERVE


Phelps, Edmund, *Economic Underperformance in Continental Europe: A Prospering Economy Runs on the Dynamism from its Economic Institutions*


Schumpeter, Joseph, *Capitalism, Socialism and Democracy* Perennial 1962. [1942]

