# briq Summer School in Behavioral Economics

**briq, Bonn**  
**July 10–14, 2017**

### Faculty:
- **Roland Bénabou** (Princeton University)  
- **Armin Falk** (briq and University of Bonn)  
- **Ernst Fehr** (University of Zurich)  
- **Botond Kőszegi** (Central European University)  
- **George Loewenstein** (Carnegie Mellon University)  
- **Ulrike Malmendier** (University of California, Berkeley)

## Program

**Monday, July 10**

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<td>8:30 – 9:00</td>
<td>Registration</td>
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<td>9:00 – 9:15</td>
<td>Welcome</td>
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| 9:15 – 10:45 | **Moral Behavior and Formation of Preferences**  
**Armin Falk** (briq and University of Bonn) |
| 10:45 – 11:15 | Coffee Break                             |
| 11:15 – 12:45 | Lecture 2: **Malleability of Moral Behavior** |
| 12:45 – 13:30 | Lunch                                     |
| 13:30 – 15:00 | Lecture 3: **Preferences and Personality** |
| 15:00 – 15:30 | Coffee Break                             |
| 15:30 – 16:30 | Sign-Ups: **Roland Bénabou, George Loewenstein, Ulrike Malmendier** |
| 18:00   | Dinner                                    |
Tuesday, July 11

**Behavioral Corporate Finance**

Ulrike Malmendier (University of California, Berkeley)

9:15 – 10:45 Lecture 1: Investor Biases, and the Managerial Response to such Biases in their Corporate Decisions

10:45 – 11:15 Coffee Break

11:15 – 12:45 Lecture 2: Managerial Biases and the Market’s Response in Terms of Providing Liquidity for Managerial Decisions

12:45 – 13:30 Lunch

13:30 – 15:00 Lecture 3: Experience Effects and Belief Formation in Behavioral Macro–Finance

15:00 – 15:30 Coffee Break

15:30 – 16:30 Sign-Ups: Roland Bénabou, Ernst Fehr, George Loewenstein, Ulrike Malmendier

16:30 Social Event

Wednesday, July 12

**How Do Society and Biology Shape the Individual?**

Ernst Fehr (University of Zurich)

9:15 – 10:45 Lecture 1: The Weave of Social Life: The Impact of Community Participation on Preferences, Beliefs, and Reputation

10:45 – 11:15 Coffee Break

11:15 – 12:45 Lecture 2: The Impact of a Nuclear Catastrophe on Economic and Political Preferences: The Case of Chernobyl

12:45 – 13:30 Lunch
13:30 – 15:00  Lecture 3: The Neural Foundations of Preferences
15:00 – 15:30  Coffee Break
15:30 – 16:30  Sign-Ups: Armin Falk, Ernst Fehr, Botond Kőszegi

Thursday, July 13

Motivated Cognition, Social Beliefs, and Social Norms
Roland Bénabou (Princeton University)

9:15 – 10:45  Lecture 1: The Economics of Motivated Cognition

10:45 – 11:15  Coffee Break

11:15 – 12:45  Lecture 2: Collective Beliefs: Organizations, Markets, and Ideologies

12:45 – 13:30  Lunch

13:30 – 15:00  Lecture 3: Social Norms, Social Beliefs, and Incentives
15:00 – 15:30  Coffee Break
15:30 – 16:30  Sign-Ups: Armin Falk, Botond Kőszegi

18:00  Informal Dinner

Friday, July 14

The Economics of Hidden Prices
Botond Kőszegi (Central European University)

9:15 – 10:45  Lecture 1: The Economics of Hidden Prices I

10:45 – 11:15  Coffee Break

11:15 – 12:45  Lecture 2: The Economics of Hidden Prices II
12:45 – 13:30  Lunch

13:30 – 15:00  Lecture 3:  The Economics of Hidden Prices III

15:00 – 15:30  Coffee Break

Farewell
Lecture Armin Falk

Moral Behavior and Formation of Preferences

I will discuss techniques of experimental economics and illustrate design and methodological issues in discussing recent topics in behavioral economics. The suggested topics are listed below and include (1) a brief discussion on potential objections against lab evidence, generalizability and experimental methods, (2) morality, (3) formation of preferences and personality, (4) measuring preferences on a global scale; cultural economics and long-term development.

Below you find a list of papers (suggested reading).

1 Generalizability of (Lab) Results

I will briefly discuss the idea of lab experiments; why the discussion about field vs. lab evidence is misguided; what generalizability implies (and what not); and examine frequently made objections against lab experiments, illustrated with recent evidence on subject pool effects, stake size and scrutiny in the domain of social preferences.

Suggested reading:
Coppock, A., Green, D.P. (2013), Assessing the Correspondence between Experimental Results Obtained in the Lab and Field: A Review of Recent Social Science Research, Columbia University.

2 Malleability of Moral Behavior

Despite the fact that the public is very concerned with moral issues, and that economics can contribute much to that debate, economists have been quite reluctant to address the issue. Morality is the outcome of the interaction of individual conscience together with physical, psychological, cultural, and institutional determinants. In other words, moral behaviour is malleable and not determined solely by conscious reasoning guided by moral principles. I will talk about the effects of institutions (markets and groups) and individual determinants of immoral behavior. Closely related is a series of papers providing evidence on how circumstances lower people’s willingness
to act prosocially (“wriggle rooms”). In fact, thinking about reasons for moral transgression is, to a large extent, thinking about how people search for excuses.

Suggested reading:
Falk, A. (2016), Status and Moral Disengagement, mimeo.

3 Preferences and Personality

Traditionally, economics has explained difference in behavior as a consequence of changes in incentives, such as prices, for given preferences. In fact, using differences in preferences or personality were largely discarded as non–explanations (see the famous dictum “de gustibus non est disputandum”, applied to economics by Stigler and Becker, 1977). In light of the pronounced heterogeneity in preferences and their obvious importance, this self–imposed restriction seems at least disputable. In recent years, and partly as a consequence of the progress in measuring preferences, economists have therefore started to use heterogeneity in personality and preferences to explain important economic outcomes. This raises important questions about (1) how to measure preferences and personality, (2) how economic and psychological measures of traits are related, and (3) how preferences are formed. I will talk about these issues, e.g., about distribution and consequences of risk preferences and psychological measures such as the Big–5 or Locus of Control. I will also report new evidence on the relation between economic and psychological measures. A particularly important question concerns the formation of preferences (not least for understanding inequality). Early life–circumstances seem to play a particular important role, such as socio–economic status and parenting style (proxied, e.g., by breastfeeding duration). Ultimately, we need to run intervention studies to provide causal evidence on the effects of (early) life circumstances on preferences. In this domain I will discuss recent work on children.
Suggested reading:

Alan, S. and Ertac, S. (2014), Good Things Come to Those Who (Are Taught How to) Wait: Results from a Randomized Educational Intervention on Time Preference


4 Measuring Preferences at the Global Scale

Suggested reading:


Lecture Ulrike Malmendier

Behavioral Corporate Finance

Lecture 1 and 2: Behavioral Corporate Finance

Here I would like to give an overview of the field of Behavioral Corporate Finance, and its links to neighboring fields (Labor, Political Economy, Public, Organizational Economics), emphasizing two perspectives: (1) Investor biases, and the managerial response to such biases in their corporate decisions. And (2) Managerial biases and the market’s response in terms of providing liquidity for managerial decisions.

READINGS:
- Malmendier and Tate, JEP 2016
- Shleifer and Vishny, JFE 2003
- Malmendier and Tate, JFE 2008

Lecture 3: Experience Effects and Belief Formation in Behavioral Macro-Finance

READINGS
- Malmendier and Nagel, “Depression Babies”, QJE 2011
- Malmendier and Nagel “Learning from Inflation Experiences”, QJE 2016
- Malmendier and Steiny, “Buy or Rent”, Working Paper
Lecture Ernst Fehr

How do society and biology shape the individual?

**Lecture 1:** The weave of social life: The impact of community participation on preferences, beliefs, and reputation

**Lecture 2:** The impact of a nuclear catastrophe on economic and political preferences: the case of Chernobyl

**Lecture 3:** The neural foundations of preferences

**Reading list:**

Cohn A, Fehr E, and Maréchal MA. Business culture and dishonesty in the banking industry. 2014. Nature. doi: 10.1038/nature13977


Krajbich I, Hare T, Bartling B, Morishima Y, and Fehr E. A common mechanism underlying food choice and social decisions. 2014 PLOS Computational Biology. doi: 0.137/journal.pcbi.1004371

Lecture Roland Bénabou

Motivated Cognition, Social Beliefs, and Social Norms

Lecture I: The Economics of Motivated Cognition


Lecture II: Collective Beliefs: Organizations, Markets, and Ideologies

A Organizational and Market Beliefs


B Political Beliefs and Ideologies

Alesina, Stantcheva and Teso (WP 2017) "Intergenerational Mobility and Preferences For Redistribution, NBER WP 23027


Lecture III: Social Norms, Social Beliefs and Incentives


of Economic Behavior and Organization, 94: 34–51.
China," UCSD mimeo.
Lecture Botond Kőszegi

The Economics of Hidden Prices

Rough outline of the lecture:
1. Motivation and a Little Bit of Evidence.
2. Basic Model of Consumers’ Misunderstanding of Prices.
   c. Distributional Effects.
   d. Distortions.
   e. Naivety–Based Discrimination.
   a. Educating and Confusing.
   b. Attention.
4. Deriving Mistakes from Primitives
   a. Reduced–Form versus Structured Modeling.
   b. Credit Contracts with Hyperbolic Discounting.
   c. Contracting with Overconfident Consumers.
5. Policy with Consumer Mistakes.
   a. The Inadequacy of Market Solutions.
   b. Soft Paternalism and Consumer Education.
   c. Regulating Contracts and Firm Conduct.

Reading list:
There are no readings that are required ahead of time, although the lectures will presume familiarity with basic behavioral–economics models, especially hyperbolic discounting, loss aversion, and overconfidence. Below is a partial list of papers that the lectures will draw upon. My suggestion is to think of this as a reference list for following up on topics that piqued your interest during the lectures. Feel free to ask for suggestions on specific readings from the list, and on further readings.


