

BEHAVIORAL ECONOMICS AND PUBLIC POLICY

API 304, Fall 2016

Harvard Kennedy School

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| Overview: | <p>This course will examine the relationship between behavioral economics and public policy. Individuals frequently make decisions that systematically depart from the predictions of standard rational actor economic models. Behavioral economics attempts to explain these departures by integrating an understanding of the psychology of human behavior into economic analysis.</p> <p>This course will review the major themes of behavioral economics and address their implications for public policy in a wide variety of policy relevant domains, including: savings, consumer credit, education, labor markets, energy use, health care, revenue collection and tax compliance, social welfare programs, and the political process.</p> <p>The goal of the course is to illustrate how an understanding of behavioral economics can improve public policy and to enable students to think critically about the types of solutions that will best address policy problems.</p> | |
| Time/Place: | M/W 8:45-10:00AM, Littauer 230 | |
| Instructor: | Professor Brigitte C. Madrian Office: Taubman 348 Phone: 617-495-8917 E-Mail: brigitte_madrian@harvard.edu | |
| Office hours: | Office hours will be posted weekly on the course website. Please make an appointment with my faculty assistant in advance (see below). | |
| Assistance: | Faculty Assistant: Kathleen Schnaidt Littauer 207B 617-495-9913 kathleen_schnaidt@hks.harvard.edu | Course Assistants: Ben Schwartz bschwartz06@gmail.com Dinesh Chand Dinesh_Lingamaneni@hks17.harvard.edu Rob Sampson rob_sampson@hks17.harvard.edu |

Class web site: The course website, which should be automatically accessible to all HKS students registered for the course, is:

<https://canvas.harvard.edu/courses/18807>

If you are a non-HKS student interested in taking the class for credit, you should cross-register now. Cross-registration petitions will be accepted after HKS registration Round II closes on September 2.

To obtain access to the course website as a cross-registrant, please follow the instructions on the HKS Cross-Registration Website:

<https://www.hks.harvard.edu/degrees/registrar/instructions-for-cross-registration-and-auditing>

Prerequisites: A first-year course in economics. A first-year course in statistics is helpful.

Readings: William J. Congdon, Jeffrey R. Kling and Sendhil Mullainathan. 2011. *Policy and Choice: Public Finance through the Lens of Behavioral Economics*, Brookings Institution Press.

Richard H. Thaler and Cass R. Sunstein. 2009. *Nudge: Improving Decisions about Health, Wealth, and Happiness* (Updated Edition), Penguin Books.

Daniel Kahneman. 2011. *Thinking Fast and Slow*. Farrar, Strauss and Giroux.

NOTE: All of the books above are available in hardcover, paperback, and kindle editions. *Policy and Choice* is also available as a free PDF

(http://www.brookings.edu/~media/Press/Books/2011/policyandchoice/policyandchoice_book.pdf). *Nudge* and *Thinking Fast and Slow* are also available as unabridged audiobooks.

Additional readings will be posted to the class website.

Grading: Grades will be determined by the following factors:

| | |
|---|-----|
| Assignments | 20% |
| Participation | 10% |
| Mid-term (Monday, November 14) | 40% |
| Final Project/Paper (Friday, December 16, noon) | 30% |

Assignments: Ten assignments will be distributed throughout the semester. Your two lowest grades will be dropped. Because you get two freebies, ***late assignments will not be accepted.***

Participation: Engagement in the material and with your classmates is critical to the classroom experience. Your participation grade will be determined by attendance, participation in classroom discussions, and participation in pre-class

exercises.

Mid-term exam: An in-class midterm will be given in class on **Monday, November 14.**

Final Paper/Project: In lieu of a final exam, you will do a project/paper on a topic of your choice in which you identify a policy problem of interest to you and then write up a discussion of potential policy solutions that are informed by behavioral economics. This can be done individually or as a small group (2-3 individuals). If done as a group, the expected length of the project will be longer. More information on this assignment will be given in class at a later date. **Due at noon, Friday, December 16.**

**Code of
Conduct:**

All course activities, including class meetings, homework assignments, and exams, are subject to the HKS Code of Conduct:

<https://knet.hks.harvard.edu/DPSA/Student-Life/Policies/Pages/default.aspx>.

Please be on time and make sure that your cell phone is turned off during class time.

SCHEDULE OF COURSE MEETINGS

| DATE | TOPIC |
|----------------------|---|
| W August 31 | Course introduction: what is behavioral economics? |
| F September 2 | In-class exercise: a framework for applying behavioral insights |
| M September 5 | No Class: Labor Day |
| W September 7 | Today vs. tomorrow: present bias and procrastination |
| M September 12 | Is the glass half empty or half full? Reference points, gains vs. losses, and anchoring |
| W September 14 | Applications to the labor market |
| M September 19 | Decision-making when outcomes are uncertain |
| W September 21 | Salience |
| M September 26 | Preferences: why you do the things you do |
| W September 28 | Choice architecture: designing the decision environment |
| M October 3 | Guest Speaker: Kate Glazebrook (UK Behavioral Insights Team) |
| W October 5 | That was easy...or was it? The consequences of complexity |
| M October 10 | No Class: Columbus Day |
| W October 12 | Getting things done by default |
| M October 17 | Getting things done: active choice, planning, reminders |
| W October 19 | Commitment |
| M October 24 | Mental Accounting |
| W October 26 | How do others influence us? |
| M October 31 | Behaviorally informed incentives: Part I |
| W November 2 | Behaviorally informed incentives: Part II |
| M November 7 | Applications: lotteries and public policy |
| W November 9 | CLASS CANCELLED |
| M November 14 | IN CLASS EXAM |
| W November 16 | Firm responses to behavioral consumers |
| M November 21 | Behaviorally informed regulation |
| W November 23 | No Class: Thanksgiving Break |
| M November 28 | Behaviorally informed disclosure |
| W November 30 | Wrap-up |
| F December 16 | FINAL PAPER/PROJECT DUE at NOON |

TIMELINE FOR ASSIGNMENTS/PROJECT/MID-TERM

| Date handed out | Deliverable | Topic | Date due |
|----------------------|------------------------------------|---|----------------------|
| F September 2 | Assignment 1 | Savings barriers and policy interventions | W September 7 |
| W September 7 | Assignment 2 | Present bias | M September 12 |
| M September 19 | Assignment 3 | Probability weighting and insurance | M September 26 |
| M September 26 | Assignment 4 | Preference checklists | M October 3 |
| W September 28 | Assignment 5 | Choice architecture and complexity | W October 5 |
| W October 5 | Final Project Instructions | | |
| M October 17 | Assignment 6 | Getting things done | M October 24 |
| | Final Project: Concept note | | W October 26 |
| M October 31 | Assignment 7 | Prize-linked savings | M November 7 |
| M November 7 | Assignment 8 | Concept consolidation | W November 16 |
| M November 14 | IN CLASS EXAM | | M November 14 |
| W November 16 | Assignment 9 | Behaviorally informed regulation | M November 21 |
| M November 21 | Assignment 10 | Behaviorally informed disclosure | M November 28 |
| | Final Paper/Project | | F December 16 |

READINGS

Wednesday, August 31

What Is Behavioral Economics?

Brigitte Madrian. 2014. "Applying Insights from Behavioral Economics to Policy Design." *Annual Review of Economics* 6(2014):663-688.

Thinking Fast and Slow. Chapter 1: "The Characters of the Story"

Thinking Fast and Slow. Chapter 2: "Attention and Effort"

Thinking Fast and Slow. Chapter 3: "The Lazy Controller"

Policy and Choice, Chapter 2 ("Psychology and Economics," pp. 17-39) and Chapter 3 ("Behavioral Economics and Public Finance," pp. 40-66).

Nudge. Chapter 1: "Biases and Blunders"

Friday, September 2

A Framework for Applying Behavioral Insights

Richburg-Hayes, Lashawn, Caitlin Anzelone, Nadine Dechausay, Saugato Datta, Alexandra Fiorillo, Louis Potok, Matthew Darling, John Balz (2014). *Behavioral Economics and Social Policy: Designing Innovative Solutions for Programs Supported by the Administration for Children and Families*. OPRE Report No. 2014-16a. Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

<http://www.mdrc.org/sites/default/files/bias_final_full_report_rev4_15_14.pdf >

Monday, September 5

NO CLASS: LABOR DAY HOLIDAY

Wednesday, September 7

Today vs. Tomorrow: Present Bias and Procrastination

Christopher Chabris, David Laibson, and Jonathan Schuldt. 2008. "[Intertemporal Choice](#)." *Palgrave Dictionary of Economics*.

Hal E. Herschfield et al. (2011). "Increasing Saving Behavior through Age-Progressed Renderings of the Future Self." *Journal of Marketing Research* 48:S23-S37.

Monday, September 12

Is the glass half empty or half full? Reference points, gains vs. losses, and anchoring

Thinking Fast and Slow. Chapter 11: "Anchors"
Thinking Fast and Slow. Chapter 25: "Bernoulli's Errors"
Thinking Fast and Slow. Chapter 26: "Prospect Theory"
Thinking Fast and Slow. Chapter 27: "The Endowment Effect"
Thinking Fast and Slow. Chapter 28: "Bad Events"
Thinking Fast and Slow. Chapter 34: "Frames and Reality"

Nicholas C. Barberis. 2013. "Thirty Years of Prospect Theory in Economics: A Review and Assessment." *Journal of Economic Perspectives* 27(1): 173-96.

Wednesday, September 14

Applications: The Labor Market

Linda Babcock, William J. Congdon, Lawrence F. Katz and Sendhil Mullainathan (2012). "Notes on Behavioral Economics and Labor Market Policy." *IZA Journal of Labor Policy* 1:2
<<http://link.springer.com/article/10.1186/2193-9004-1-2> >

Ernst Fehr, Lorenz Goette, and Christian Zehnder (2007). "The Behavioral Economics of the Labor Market: Central Findings and Their Policy Implications."
<<http://bostonfed.org/economic/conf/BehavioralPolicy2007/chapter4.pdf> >

Monday, September 19

Decision-Making When Outcomes are Uncertain

Thinking Fast and Slow. Chapter 12: "The Science of Availability"
Thinking Fast and Slow. Chapter 13: "Availability, Emotion and Risk"
Thinking Fast and Slow. Chapter 29: "The Fourfold Pattern"
Thinking Fast and Slow. Chapter 30: "Rare Events"
Thinking Fast and Slow. Chapter 31: "Risk Policies"

Howard C. Kunreuther, Mark V. Pauly and Stacey McMorro (2013). *Insurance and Behavioral Economics: Improving Decisions in the Most Misunderstood Industry*. Chapter 6-7 (pp. 95-144).

Wednesday, September 21

Salience

James J. Choi, David Laibson and Brigitte C. Madrian. 2010. "Why Does the Law of One Price Fail? An Experiment on Index Mutual Funds." *Review of Financial Studies*, 23(4): 1405-1432.

Policy and Choice, Chapter 7: "Taxation and Revenue."

Monday, September 26

Preferences: Why You Do the Things You Do

Eldar Shafir, Itamar Simonson and Amos Tversky (1993). "Reason-based Choice." *Cognition* 49 (1993): 11-36.

Eric J. Johnson, Gerald Häubl and Anat Keinan (2007). "Aspects of Endowment: A Query Theory of Value Construction." *Journal of Experimental Psychology: Learning, Memory and Cognition* 33(3): 461-474.

John W. Payne, Namika Sagara, Suzanne B. Shu, Kirstin C. Appelt and Eric J. Johnson (2013). "Life Expectancy as a Constructed Belief: Evidence of a Live-To or Die-By Framing Effect." *Journal of Risk and Uncertainty* 46(1): 27-50.

E. Johnson, K. Appelt, M. Knoll, and J. Westfall (2016). "Preference Checklists: Selective and Effective Choice Architecture for Retirement Decisions." TIAA Institute Research Dialogue 127, 2016
<https://www.tiaainstitute.org/public/pdf/rd_selective_effective_choice_architecture_for_retirement_decisions.pdf >

Wednesday, September 28

Choice Architecture

Nudge. Chapter 5: "Choice Architecture."

One of the following:

Brian Wansink (2013). "Turning Mindless Eating into Healthy Eating." In Eldar Shafir, ed., *The Behavioral Foundations of Public Policy* (Princeton University Press: Princeton, NJ) pp. 310-328.

Watch the Brian Wansink video "Slim By Design" (1.25 hours long)
<https://www.youtube.com/watch?v=cKEbbTmxYGo>

Monday, October 3

Guest Speaker: Kate Glazebrook (UK Behavioral Insights Team)

Wednesday, October 5

That Was Easy...Or Was It: The Consequences of Complexity

Eric Bettinger, Bridget Terry Long, Philip Oreopoulos and Lisa Sanbonmatsu (2012). "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment." *Quarterly Journal of Economics* 127(3): 1205-1242.

Saurab Bhargava and Dayanand Manoli (2015). "Psychological Frictions and the Incomplete Take-up of Social Benefits: Evidence from an IRS Field Experiment." *American Economic Review* 105(11): 3489-3529.

Shlomo Benartzi and Richard Thaler (2007). "Heuristics and Biases in Retirement Savings Behavior." *Journal of Economic Perspectives* 21(3): 81-104.

Thinking Fast and Slow, "Appendix A: Judgment Under Uncertainty: Heuristics and Biases."

Monday, October 10

NO CLASS: COLUMBUS DAY HOLIDAY

Wednesday, October 12

Defaults

John Beshears, James J. Choi, David Laibson and Brigitte C. Madrian (2008). "The Importance of Default Options for Retirement Savings Outcomes: Evidence from the United States." In S.J. Kay T. Sinha, *Lessons from Pension Reform in the Americas* (New York: Oxford University Press), pp. 59-87. < <http://www.nber.org/chapters/c4539.pdf> >

Eric J. Johnson and Daniel Goldstein (2003). "Do Defaults Save Lives?" *Science* (November 21, 2003): 1138-39.

Daniel Pichert and Konstantinos V. Katsikopoulos (2008). "Green Defaults: Information Presentation and Pro-Environmental Behavior." *Journal of Environmental Psychology* 28: 63-73.

Monday, October 17

Getting Things Done: Active Choice, Planning, Reminders

John Beshears, James J. Choi, David Laibson and Brigitte C. Madrian (2014). "Active Choice and Health Care Costs: Evidence from Prescription Drug Home Delivery." Working paper.

Cass Sunstein (2015). "Active Choosing or Default Rules? The Policymaker's Dilemma." *Behavioral Science and Policy*, 1(1): 29-34. < <https://behavioralpolicy.org/wp-content/plugins/Xs2member-files/1-1/Active-choosing-or-default-rules-The-policymakers-dilemma.pdf>>

Todd Rogers, Katherine Milkman, Leslie K. John and Michael I. Norton (2016). "Beyond Good Intentions: Prompting People to Make Plans Improves Follow-Through on Important Tasks." *Behavioral Science and Policy* 1(2):33-41.

Wednesday, October 19

Temptation and Commitment

Gharad Bryan, Dean Karlan and Scott Nelson. 2010. "Commitment Devices." *Annual Review of Economics*, Vol. 2: 671-698.

Kevin G. Volpp et al. (2008). "Financial Incentive-Based Approaches for Weight Loss: A Randomized Trial." *JAMA* 300(22): 2631-37.

Nudge. Chapter 2: "Resisting Temptation"

Monday, October 24

Mental Accounting

Dilip Soman and Amar Cheema. 2011. "Earmarking and Partitioning: Increasing Saving by Low Income Households." *Journal of Marketing Research*, 48(S1): S14-S22.

James J. Choi, David Laibson and Brigitte C. Madrian. 2009. "Mental Accounting in Portfolio Choice: Evidence from a Flypaper Effect." *American Economic Review*, 99(5):2085-95.
doi:10.1257/aer.99.5.2085

Wednesday, October 26

How Do Peers Influence Us?

Nudge. Chapter 3: "Following the Herd"

Noah Goldstein, Robert Cialdini and Vlasdis Griskevicius (2008). "[A Room with a Viewpoint: Using Social Norms to Motivate Environmental Conservation in Hotels](#)," *Journal of Consumer Research*, 35(3): 472-82.

Ian Ayres, Sophie Rasman and Alice Shih (2013). "Evidence from Two Large Field Experiments that Peer Comparison Feedback Can Reduce Residential Energy Usage." *Journal of Law, Economics and Organization* 29(5): 992-1022.

Todd Rogers, Craig R. Fox and Alan S. Gerber (2013). "Rethinking Why People Vote: Voting as Dynamic Social Expression." In Eldar Shafir, ed., *The Behavioral Foundations of Public Policy* (Princeton University Press: Princeton, NJ) pp. 91-107.

Monday, October 31

Behaviorally Informed Incentives: Part I

Emir Kamenica (2012). "Behavioral Economics and the Psychology of Incentives." *Annual Review of Economics* 4:427-52.

David Just and Joseph Price (2013). "Using Incentives to Encourage Healthy Eating in

Children.” *Journal of Human Resources* 48(4): 855-872.

Steven Levitt, John List, Susanne Neckermann and Sally Sadoff (2012). “The Behavioralist Goes to School: Leveraging Behavioral Economics to Improve Educational Performance.” NBER Working Paper No. 18165.

Wednesday, November 2

Behaviorally Informed Incentives: Part II

Johannes Abeler and Simon Jager (2015). “Complex Tax Incentives.” *American Economic Journal: Economic Policy* 7(3): 1-28.

Monday, November 7

Applications: Lotteries and Public Policy

Melissa Schettini Kearney, Peter Tufano, Jonathan Guryan and Erik Hurst (2010). “Making Savers Winners: An Overview of Prize-Linked Savings Products.” NBER Working Paper No. 16422. National Bureau of Economic Research, Cambridge, MA.

Kadir Atalay, Fayzan Bakhtiar, Stephen Chueng and Robert Slonim (2014). “Savings and Prize-Linked Savings Accounts.” *Journal of Economic Behavior and Organization* 107(2014): 86-106.

Wednesday, November 9

CLASS CANCELLED

Monday, November 14

IN-CLASS EXAM

Wednesday, November 16

Firm Responses to Behavioral Consumers

Santosh Anagol and Hugh Hoikwong Kim (2012). “The Impact of Shrouded Fees: Evidence from a Natural Experiment in the Indian Mutual Fund Market.” *American Economic Review* 102(1): 576-593.

Monday, November 21

Behaviorally Informed Regulation

Michael Barr, Sendhil Mullainathan and Eldar Shafir (2009). “The Case for Behaviorally Informed Regulation,” in David Moss and John Cistierno, *New Perspectives on Regulation*, Cambridge, MA: The Tobin Project pp. 25-61.

<http://www.tobinproject.org/sites/tobinproject.org/files/assets/New_Perspectives_Full_Text.pdf#page=25>

Policy and Choice, Chapter 4 (“Asymmetric Information,” pp. 83-98). NOTE: This is only part of the chapter.

Wednesday, November 23

NO CLASS: THANKSGIVING BREAK

Monday, November 28

Behaviorally Informed Disclosure

George Loewenstein, Cass R. Sunstein and Russell Golman (2014). “Disclosure: Psychology Changes Everything.” *Annual Review of Economics* 6: 391-419.

Marianne Bertrand and Adair Morse (2011). “Information Disclosure, Cognitive Biases, and Payday Borrowing.” *Journal of Finance*, 66(6): 1865-1893.

Mark Bernstein and Myles Collins (2014). “Saving Energy through Better Information: A New Energy Paradigm?” *Contemporary Economic Policy* 32(1): 219-229.

Wednesday, November 30

FINAL CLASS: Wrap-Up

Nudge. Chapter 17: “Objections”

Nudge. Chapter 18: “The Real Third Way”

Nava Ashraf, Colin F. Camerer and George Loewenstein (2005). “Adam Smith, Behavioral Economist.” *Journal of Economic Perspectives* 19(3): 131-145.

Friday, December 16

FINAL PAPER/PROJECT DUE (at noon)