Early economists knew that their models described a simplified, idealized type of behavior, but it is only in the past few decades that we have systematically studied the ways in which human behavior is different from what “rational” models suggest. This seminar will explore theory and empirical research aimed at explaining key differences between standard economic models and the choices made by real people.

The theory of bounded rationality is an attempt to correct the errors economists make by assuming utility can easily be measured in dollars. You will learn about that theory but also go beyond rationality altogether to study how systematic biases that seem to be hard-wired into our brains affect economic behavior.

Reading academic research
In addition to the primary text, you will read and discuss academic papers on each topic as well as for your own paper. For those of you who are not yet comfortable reading journal articles, I offer the following advice:

- Read each paper at least twice.
- The first time through, look for the big ideas: which section of the book does it relate to, and how? What is the research question? What is their main conclusion?
- The second and subsequent times, try to understand how they answer that question and how they reach their conclusions. What methods are they using? Do you believe their conclusions are justified? Why or why not?
- Also look for connections with other topics in this class and in economics more generally, or with your life outside economics. How might you apply their research?

Paper: (200 points) As the capstone course in your economics major, this class culminates in a 10-15 page double-spaced paper in which you use your knowledge to analyze a topic in depth. You will also give a 15-minute presentation of that project. In the paper, you will use behavioral theory to analyze a real-world choice situation in depth. You may choose any topic you like; it could relate to the stock market, interactions with friends or classmates, politics, etc. The outline for this paper follows:

1. Introduction: Describe the topic and why it is worth analyzing. Be sure to explain all the key elements of the situation that you will use for your analysis and describe why the reader should care. If your idea is based on a newspaper article or other source, cite it. (2-3 pages)
2. Standard economics background: Explain the predictions of standard economic theory in this situation. Use your knowledge from micro or macro, and be sure to explain each element clearly. Cite your source for the theory (textbook is fine). (1-2 pages)
3. Behavioral background: (3-4 pages)
   a. Define and explain the behavioral theory you are applying. Cite your source for the theory. Argue its relevance to this topic – why does the theory apply to this situation?
   b. Discuss the evidence for this theory, especially any evidence from similar situations to the one you are analyzing. Cite your sources.
4. Analysis: (3-4 pages)
   a. Analyze your topic using the behavioral theory. What does it predict people will do and how is that different from the standard model? Be precise!
   b. Briefly describe how you could test your predictions. I do not expect you to actually find evidence or to come up with a detailed experiment design. Instead, describe ideal data that would enable you to test which theory better predicts behavior in this situation.
5. Conclusion: Briefly summarize your predictions and then explain why we should care—how do your results affect the real world? You might consider public policy, business, or academic implications in this section. (1-2 pages)
6. Reference list (1 page)

Note that this is not a long paper. However, I expect each section to be very thorough and carefully explained. I recommend over-explaining in your early drafts and then cutting the paper down for clarity and conciseness. Also note that while three drafts are graded, you will probably want to do several more ungraded ones which you edit before turning anything in. I recommend using the WORD studio to help with this process.

You will be required to turn in several stages and drafts of this project and review a classmate’s paper. The deadlines and points for each portion follow. Each assignment must be typed and turned in as a hard copy at the beginning of class plus an electronic copy uploaded to the Sakai box by the beginning of class.

3/11 Topic description 5 points
3/25 Preliminary reference list (5 sources) 5 points
4/8 Draft 1 (2 hard copies required) 10 points
4/13 Peer review (2 hard copies required) 10 points
4/20 Draft 2 20 points
5/? Final draft 100 points
5/? Final presentation 50 points

If an assignment related to the paper is late, your overall paper grade, not just the grade for that assignment, will be reduced by 10 points each day or portion of a day. That means if you turn your topic description in 20 minutes late, your total paper grade will drop by 10 points. If it is 1 day and 20 minutes late, the grade will drop by 20 points. Don’t do it.

I will hand out rubrics and requirements for each assignment separately.

Exams: (200 points total, 100 points each)
Exam 1: Wednesday, February 25th
Exam 2: Wednesday, April 22nd

The exams will each be given a weight of 100 points each in the final grade. They a mixture of short answer format with some problem-solving or mathematical questions, and will draw on the class presentations and discussions as well as the readings. They are comprehensive with a focus on the most recent section of the material. Absences will result in a grade of zero for the exam. The format of any make-up exam is at the discretion of the instructor, and will only be given if arranged prior to the exam. Exams are independent work.

Participation: (200 points) This is a seminar course; you are responsible for its success. If I walked in 5 minutes late, I would expect to see you already engaged in a discussion of the day’s reading. As such, participation represents a third of your grade.
For a high participation grade, you must do all of the following:
1. Read each of the assigned texts carefully and turn in a 1-page typed summary and commentary on the readings each class. The commentary may include questions or other thoughts about the reading. Late commentaries and commentaries from students who arrive late to class will NOT be accepted.
2. Attend each class and participate in the discussions and other activities. You will sometimes disagree with your classmates on their understanding of the material or on how it should be interpreted. That’s what discussion is all about! Be respectful, but don’t be afraid to differ. I expect to hear at least one comment from each student in each discussion. Talk to me if you are struggling with class discussions—I can help.
3. Lead the class twice. This includes presenting and explaining the economics theory relevant to that day’s reading; analysis of the evidence; highlighting connections with other topics from this course, economics more generally, or other areas such as current events; highlighting areas of controversy; and using a list of questions to stimulate class discussion. You should go beyond the source material-
the task is to explain and analyze the reading, not regurgitate it. Wikipedia and Khan Academy are great sources for understanding the theory, as am I. If you have handouts, worksheets, or other material that needs photocopying you should send it to me the day before. If you would like me to check your plans and provide feedback, please show it to me at least three days before class. Plan for a 5-minute break about halfway through class, and include a class discussion lasting at least half an hour (note that the length and intensity of discussion will depend partly on what prompts you prepare!). You may miss three classes without penalty unless you were scheduled to present on that day. I expect these permitted absences to be used for things like travel or mild illnesses, so use them sparingly. Missing additional classes will only be excused with a doctor’s note or in exceptional circumstances in which I agree ahead of time. Written commentaries may not be missed or turned in late- turn them in ahead of time if you will miss class.

**Grading:** There are a total of 600 points available. Your grade is based on the percent of the points you scored. The grading scale will be no stricter than

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At my discretion I may reduce the points required for each grade at the end of the semester.

**Technology policy (laptops and phones):** I ask that you silence and put away anything that might distract you or your classmates unless I have requested that you use the device for class purposes (eg., presentations or in-class experiments). Refrain from using your computer for anything not specifically relevant to the class.

**Honor code: copying and cheating:** Cheating will not be tolerated. Anyone caught cheating or turning in suspiciously similar work will be punished to the full extent outlined in the student handbook. I will recommend that you receive a minimum punishment of a zero grade in this course if you are deemed guilty of academic dishonesty on exams.

**Students with disabilities:** If you have a disability and may need accommodations please be sure to contact the Disability and Accessibility Services Office right away so they can help you get the accommodations you require: [http://www.stlawu.edu/special-needs](http://www.stlawu.edu/special-needs). If you will need to use any accommodations in this class, please talk with me early so you can have the best possible experience this semester. Although not required, I would like to know of any accommodations that are needed at least 10 days before a test, so please see me soon.

**Resources for victims of harassment or assault**

Title IX makes it clear that violence and harassment based on sex and gender are Civil Rights offenses subject to the same kinds of accountability and the same kinds of support applied to offenses against other protected categories such as race, national origin, etc. If you or someone you know has been harassed or assaulted, you can find the appropriate resources here: [http://www.stlawu.edu/associate-dean-student-life/sexual-assault-resources](http://www.stlawu.edu/associate-dean-student-life/sexual-assault-resources) or call the confidential 24-hour Sexual Violence Hotline at 315-244-5466.
Supplemental readings, in the order we will use them

**Chapter 2: Satisficing**

**Chapter 2: Anchoring**

**Chapter 2: Endowment effect**

**Chapter 3: Prospect theory**

**Chapter 3: Regret theory**

**Chapter 3: Allais Paradox in health**

**Chapter 4: Hyperbolic discounting**

**Chapter 4: Commitment**

**Chapter 5: Confirmation bias**

**Chapter 5: Hot hand fallacy**

**Chapter 5: Information cascades**

**Chapter 6: Beauty contest**

**Chapter 6: Market experience**

**Chapter 7: Group interactions**

**Chapter 7: Fairness and intentions**

**Chapter 10: Relative income and happiness**

**Chapter 11: Retirement planning**