

Behavioral Public Economics (Summer term 2024)

General information

The course introduces students to topics of behavioral public economics. Students learn to reflect on the distinction between normative and positive reasoning in economic discussions. This is grounded on an in-depth recapitulation of foundations of neoclassical economic theory, subsequent development of behavioral model and its application in public economics. Students discuss and evaluate policy applications regarding major challenges in public economics.

The whole course consists of a lecture, a tutorial and a seminar. Depending on your mode of study, you may combine these components in different ways. You find an overview of your options in the table below.

One rule applies in any case: in order to participate in the seminar, you have to participate in the lecture.

Course credits & examination

Study program	Participation in ...	Credits	Examination
Master (SPO 22/23)	Lecture + tutorial + seminar	12 LP	Seminar paper (15 - 20 pages) with presentation (35 minutes)
Master (StO 12/13)	Lecture + tutorial (only) OR/AND seminar	6 LP + 6 LP	Written examination (2h) OR/AND Seminar paper (15 - 20 pages) with presentation (35 minutes)
PhD Berlin School of Economics	Lecture + seminar	6 LP	Research proposal as seminar paper with presentation (25 minutes)

Tutorial & active participation

In the tutorial, we will discuss various papers instead of solving problem sets.

All Master's students have to prepare presentations for the readings to achieve the active participation requirement for this course. In total, you will have to prepare at least two presentations for the readings. Presenters and moderators will be allocated at random at the beginning of the tutorial. There will be eleven readings in total.

Participation in the tutorials is voluntary for PhD students.

Seminar

The seminar starts mid-June. Seminar topics will be allocated at the beginning of May. Preferences will be considered as much as possible.

A first draft has to be handed in one week before your presentation is scheduled. After your presentation you should revise your paper according to the discussion in class. The deadline for your final submission is August 15.

Timeline

16.4	Lecture: Chapter 1, 2
18.4	Tutorial: Allocation of readings' presentations
23.4	Lecture: Chapter 2, 3
25.4	Tutorial: Reading 1
30.4	Lecture: Chapter 4-1
2.5	Tutorial: Readings 2 + 3
7.5	Lecture: Chapter 4-2
9.5	Bank holiday
14.5	Tutorial: Readings 4 + 5
16.5	Tutorial: Readings 6 + 7
21.5	Lecture: Chapter 5
23.5	Tutorial: Reading 8
28.5	Lecture: Chapter 6-1
30.5	Tutorial: Reading 9
4.6	Lecture: Chapter 6-2 + Conclusions
6.6	Tutorial: Readings 10
11.6	No class
13.6	Tutorial: Reading 11
18.6	Seminar: Topics 1+2+3
20.6	Seminar: Topics 4+5
25.6	Seminar: Topics 6+7+8
27.6	Seminar: Topics 9+10
2.7	Seminar (replacement date)
4.7	Seminar: Topics 11+12

Course Outline (tentative)

1. Introduction
 - 1.1 Aims and scope
 - 1.2 Course outline

2. Individual welfare: concepts and measurement
 - 2.1 From classical to neoclassical economics
 - 2.2 The neoclassical approach: utility and preferences satisfaction
 - 2.3 Other-regarding preferences
 - 2.4 (Subjective) Expected utility
 - 2.5 Intertemporal utility
 - 2.6 Conclusion

3. Standard welfare economics
 - 3.1 The efficiency credo: Pareto criterion and the compensation test
 - 3.2 From Pareto-efficiency to welfare functions
 - 3.3 Market efficiency
 - 3.4 Market imperfections and market failure
 - 3.5 Conclusion

4. Heuristics, biases, and framing
 - 4.1 Opportunity costs and the sunk cost fallacy
 - 4.2 Endowment effect, loss aversion, and framing
 - 4.3 Time discounting, adaptation and anticipation bias
 - 4.4 Remembered vs decision vs experienced utility
 - 4.5 Context dependency
 - 4.6 Salience

5. Normative challenges
 - 5.1 What constitutes welfare?
 - 5.2 BE and welfare maximization: a pragmatic approach
 - 5.3 The behavioral public economics approach
 - 5.4 Paternalism
 - 5.5 Objections to paternalism

6. Policy areas
 - 6.1 Taxation
 - 6.2 Nudging
 - 6.3 Cost-benefit analysis
 - 6.4 Fighting unemployment
 - 6.5 The political economy of paternalism

Readings

- (1) Angner, Erik, and George Loewenstein (2012): “Behavioral Economics.” In Uskali Mäki (Ed.): *Handbook of the Philosophy of Science Vol. 13: Philosophy of Economics*. Elsevier: 641-690.
- (2) Friedman, Milton (1953): “The Methodology of Positive Economics.” In: Milton Friedman (1953): *Essays in Positive Economics*. University of Chicago Press: 3–43.2
- (3) Atkinson, Anthony B., and Joseph E. Stiglitz (2015): *Lectures on public economics: Updated edition*. Princeton University Press: chapter 11.
- (4) Marzilli Ericson, Keith M., and Andreas Fuster (2014): “The endowment effect.” *Annual Review of Economics* 6(1) 555-579.
- (5) Nikolova, Milena, and Carol Graham (2022). “The economics of happiness.” In Klaus F. Zimmermann (ed.): *Handbook of Labor, Human Resources and Population economics*. Cham: Springer.
- (6) Köszegi, Botond, and Matthew Rabin (2008): “Choices, situations, and happiness.” *Journal of Public Economics* 92(8-9): 1821–1831.
- (7) Bordalo, Pedro, Nicola Gennaioli, and Andrei Shleifer (2022): “Salience.” *Annual Review of Economics* 14: 521–544.
- (8) McQuillin, Ben, and Robert Sugden (2012): “Reconciling normative and behavioural economics: the problems to be solved.” *Social Choice and Welfare* 38(4): 553–567.
- (9) Bernheim, B. Douglas (2016): “The Good, the Bad, and the Ugly: A Unified Approach to Behavioral Welfare Economics”, *Journal of Benefit-Cost Analysis* 7(1): 12–68.
- (10) Sunstein, Cas R. (2020): “Behavioral welfare economics.” *Journal of Benefit-Cost Analysis* 11(2): 196–220.
- (11) Gigerenzer, Gerd (2015): “On the supposed evidence for libertarian paternalism.” *Review of Philosophy and Psychology* 6: 361–383.

Seminar topics

A: Behavioral welfare economics

1. Community of advantage
2. Utility and subjective wellbeing

B: Taxation

3. Sin taxes
4. Tax salience
5. Tax complexity

C: Nudges

6. The “Deutschlandrente”
7. Tax compliance
8. Consumer protection

D: Cost-Benefit analysis

9. Wellby: Subjective wellbeing and government policies
10. Alternative well-being indices

E: Behavioral Public Choice

11. Time-inconsistent voters and policy
12. The Political Economy of paternalist policymaking