

Introduction to Behavioural Economics

LSE SUMMER SCHOOL

This course will provide students with a clear introduction to the principles and methods of Behavioural Economics. Behavioural economics considers the ways that people are more social, more impulsive, less adept at using information, and more susceptible to psychological biases than the standard economic models assume. We will explore key departures, and the consequences for individuals, firms, and policy.

- To provide students with an introduction to the principles and methods of Behavioural Economics.
- To provide an overview of how behavioural principles have been applied to economic problems both in microeconomics and macroeconomics.

Key facts

Lectures: 36 hours

Classes: 18 hours

Assessment*: Two written examinations

Typical credit**: 3-4 credits (US) 7.5 ECTS points (EU)

Prerequisites

Introductory macroeconomics and microeconomics.

Programme structure

This course provides an introduction to the foundations of behavioural economics. The focus of the course is on the understanding of the principles behind the behavioural approach in addressing economics problems and on the development of up-to-date analytical tools, drawn from recent research, and their application to a variety of economic situations.

The course will be thematically organized as ‘behavioural macroeconomics’ and ‘behavioural microeconomics’. In the behavioural macro part, there will be an introduction on the rational expectations framework and then there will be an overview of a variety of applications of behavioural models to finance, labour market, saving choices and monetary policy to address “anomalies”. We also plan to cover models of learning and applications of sunspot theories. Behavioural micro will focus on departures from the assumptions of selfishness, time consistency, rational inference, and strategic sophistication with applications to markets, policy, and strategic

settings. Behavioural game theoretic models (e.g. “level-k”) will be introduced (Nash equilibrium not required as a prerequisite).

Course outcomes

By the end of the course students should be able to:

- Identify and evaluate evidence for systematic departures of economic behaviour from the predictions of the neoclassical model, and psychological explanations for these anomalies.

- Incorporate psychologically motivated assumptions into economic models, and interpret the implications of these assumptions.

- Explain how these models change the predictions for equilibrium behaviour and welfare analysis, and assess the implications for optimal policy.

- Compare the predictions of neoclassical and behavioural models, and evaluate the best method for approaching a given topic.

Reading materials

One suggested (non-mandatory) textbook for the course is *An Introduction to Behavioural Economics* by Nick Wilkinson and Matthew Klaes, (2012), Palgrave MacMillan. Another good reading is *Animal Spirits* by George Akerlof and Robert Shiller, (2009), Princeton University Press.

Students wishing to review their microeconomic theory should consult a textbook on intermediate microeconomic theory, such as Morgan, Katz and Rosen, (2006), *Microeconomics*, McGraw Hill or J. Perloff, (2008), *Microeconomics: Theory and Applications with Calculus*, Pearson