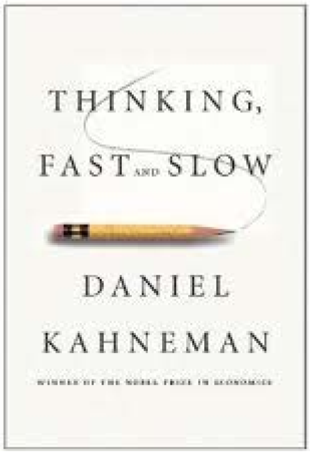
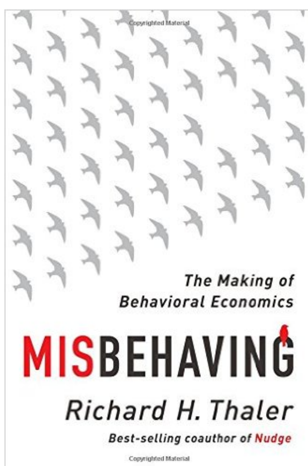
<u>Reading Materials</u>:

There are two recent books I would like to recommend strongly. The first one is written by Daniel Kahneman (Princeton University), "*Thinking Fast and Slow*." Kahneman won the Nobel Prize in Economics in 2002 together with Vernon Smith.



The second one is written by Richard Thaler (University of Chicago), *Misbehaving: The Making of Behavioral Economics*. Richard Thaler's contribution is to introduce Behavioral Economics to policymaking and was awarded the Nobel Prize in Economic Sciences in 2017.



Additional Readings

1. Introduction to Behavioral Economics

- Richard Thaler, "From Cashews to Nudges: The Evolution of Behavioural Economics", *American Economic Review*, (June, 2018) 106(6):1265-1287. (This is Dick's Nobel Prize acceptance talk.)

- Thaler, Richard and Cass Sunstein (2008), *Nudge: Improving Decisions about Health, Wealth, and Happiness*, New Haven: Yale University Press.

- Camerer, Colin and George Loewenstein (2004), "Behavioral Economics: Past, Present, Future," in Advances in Behavioral Economics, Camerer, Colin, George Loewenstein, and Matthew Rabin (editors), New Jersey: Princeton University Press, pp.3-52.

- Della Vigna, Stefano (2009), "Psychology and Economics," *Journal of Economic Literature*, 36(1): 11-46.

2. Prospect Theory, Reference-Dependent Preferences, Endowment Effect and Loss Aversion

- Kahneman, Daniel and Amos Tversky, "Prospect Theory: An Analysis of Decision under Risk, "Econometrica, 1997, Vol.47, p.263-291.

- Kahneman, Daniel, Jack L Knetsch and Richard Thaler (1991), "Anomalies: The Endowment Effect, Loss Aversion and Status Quo Bias," *Journal of Economic Perspectives*, Vol.5, No.1: 193-206.

- Knetsch, Jack L. (1089), "The Endowment Effect and Evidence of nonreversible Indifference Curve," *American Economic Review*, Vol.79, No.5,: 1277-1284.

3. Heuristics and Biases: Representativeness, Availability, and Anchoring

- Tversky, Amos and Daniel Kahneman (1974), "Judgment under Uncertainty: Heuristics and Biases," *Science*, Vol.185 (4157): 1124-1131.

- Tversky, Amos and Daniel Kahneman (1984), "Extensional versus Intuitive Reasoning: The Conjunction Fallacy in Probability Judgment," *psychological Review*, Vol.91: 293-315.

- Kahneman, Daniel and Shane Frederick (2002), "Representativeness Revisited: Attribute Substitution in Intuitive Judgments," in *Heuristics and Biases: The psychology of Intuitive Judgment* (eds: Thomas Gilovich, Dale Griffin and Daniel Kahneman), Cambridge University Press – Cambridge UK, pp. 49-81.

4. Framing, Mental Accounting, Reversal of Preference and Money Illusion

- Thaler, Richard (1999), "Mental Accounting Matters," *Journal of Behavioral and Decision making*, Vol.12: 183-206.

- Tversky and Kahneman (1986), "Rational Choice and the Framing of Decisions," *Journal of Business*, Vol.59, No.4: 5251-5278.

- Ariely, Dan, George Loewenstein and Drazen Prelec (2003), “Coherent arbitrariness: Stable Demand Curves without Stable Preferences,” *Quarterly Journal of Economics*, Vol.118: 73-105.

- Shafir, Eldar, Peter Diamond and Amos Tversky (1997),”Money Illusion,” *Quarterly Journal of Economics,* Vol.112, No.2: 341-374.

5. Present-Biased Preferences and Intertemporal Choice

- Frederick, Shane, George Loewenstein and Ted O’Donaghue (2001), “Time Discounting: A Critical Review,” *Journal of Economic Literature*.

- O’Donaghue, Ted and Matthew Rabin (1999), “Choice and Procrastination,” *Quarterly Journal of Economics*, Vol.116, 121-160.

- O’Donaghue, Ted and Matthew Rabin (2001), “Doing it Now or Later,” *American Economic Review*, Vol.89(1): 103-124.

- Laibson, David (1997), “Golden Eggs and Hyperbolic Discounting,” *Quarterly Journal of Economics*.

6. Fairness and Social Preferences

- Chaudhuri, Ananish (2009), Experiments in Economics: Playing Fair with Money, New York: Routledge (Chapters 2&3).

- Camerer, Colin (2003), Behavioral Game Theory, New Jersey: Princeton University Press (Chapters 1&2).

7. Market Interactions and Social Responsibility

- Bartling, B., Weber, R. A., & Yao, L. (2015). Do markets erode social responsibility?. *Quarterly Journal of Economics*, 130(1), 219-266.

- Baron, D. P. (2009). A positive theory of moral management, social pressure, and corporate social performance. Journal of Economics & Management Strategy, 18(1), 7-43.

- Baron, D. P. (2010). Morally motivated self-regulation. The American Economic Review, 100(4), 1299-1329.

- Riyanto, Yohanes E, Yan Wang, and Yew-Kwang Ng (2018), “Urging Buyers to Act Socially Responsible: An Experiment Investigation,” *mimeo*, 52 pp.

8. Valuation and Cost-Benefit Analysis

- Knetsch, Jack L., Riyanto, Yohanes E. and Jichuan Zong (2012), "Gain and Loss Domains and the Choice of Welfare Measure of Positive and Negative Changes", Journal of Benefit Cost Analysis, Vol 3, No.4, (Lead Article).