



Finance and Insurance

Behavioral Decision Making

Winter Semester

Institute:	INRIVER
Lecturer:	Dr. Johannes Maier
Assistant:	
Weekly hours:	4
Credits	6
Examination:	Term Paper (50%) + Presentation (50%)
Prerequisites:	
Course Material:	Lecture Slides, Problem Sets

Course Description & Main Objectives

Behavioral economics emerged out of a number of empirical and experimental puzzles which are difficult to explain with the standard economic paradigm. It studies models of human decision making and the interaction among such decision makers in games and markets. Why do people demand insurance and, at the same time, buy lottery tickets? Why do default decisions matter even if transaction costs are low? Why do people borrow on credit cards and, at the same time, hold substantial illiquid wealth? Why do people engage in charitable giving? Behavioral economics is the attempt to shed light on these and other observations by enriching standard theory with psychological realism, i.e., creating models about behavior that bring more accurate predictions. As behavioral economists typically aspire to construct more "realistic" models, many of the models are inspired by psychological and experimental studies.

The aim of the course is to make students familiar with the most important workhorse models in behavioral economics. At the end of the course, students should be able to apply these models to particular economic problems, e.g., moral hazard, savings for retirement, insurance demand, consumption decisions, etc.. This course has a strong focus on formal theoretical models, but we will occasionally survey empirical and experimental studies without going into full details.



The course is decomposed into two parts. The first part of the course will be held as a lecture and will provide the foundations needed for the second part of the course. In these lectures, several key concepts and models of behavioral economics will be introduced and the relevance of these models is discussed. The second part of the course will be held as a seminar. Each student has to present a recent theoretical or empirical paper in behavioral economics and has to write a referee report about it.

Lectures Overview/ Course Outline

- Chapter I: Decisions under Uncertainty
- Chapter II: Decisions under Certainty
- Chapter III: Intertemporal Decisions
- Chapter IV: Fairness and Reciprocity
- Chapter V: Limited Strategic Thinking