

Bowdoin College, Department of Economics
ECON 3561: Behavioral Economics and Socially Responsible Capitalism
Spring 2024

Time & Class Location: M, W 2:50-4:15, Hubbard Pickering Room (213)

Professor: Dan Stone

Email: dstone@bowdoin.edu (feel free to email me questions)

Office & Drop-in Hours: Hubbard 108; T, R 2:00-4:00. If you'd like to meet and can't make it at those times, don't hesitate to email to set up an appointment.

Prerequisites: Intermediate micro (Econ 2555) and statistics (Econ 2557) or equivalent.

Course description and learning goals: The primary learning goals of the course are to learn: 1) the major concepts and models of behavioral economics, and 2) theories of socially responsible capitalism (SRC) and relevant evidence, through the lens of behavioral economics.

Behavioral economics is the study of violations of the standard, a.k.a. neoclassical, economic theory assumptions that individuals form optimal beliefs given available information and optimize stable and purely self-interested objective functions. Put more simply, behavioral economics often consists of the study of people's mistakes—but not always. Humankind's failure to be purely self-interested—that is, our interest in helping other people and more generally, our desire to be morally good and to appear good—are “behavioral” characteristics that are, at least *prima facie*, socially beneficial. SRC is fundamentally related to these aspects of human nature. However, SRC can take many forms, and it is far from clear which of these are most effective, or are at all effective, in serving society's goals.

SRC, and related concepts like corporate social responsibility, ESG investing, and stakeholder capitalism, are defined in many ways, but ultimately most of these definitions boil down to the idea that firms should consider and account for their impacts on society overall beyond a narrow view of profit maximization. Some people argue that firms should consider these stakeholder impacts even if this comes at the firms' expense and prevents them from maximizing long run profits, and some argue that firms should account for stakeholder impacts because doing so is necessary for long-run profit maximization. In fact, one major question in the study of SRC is “to what extent does doing good lead to doing well?”—how are long run profits affected by stakeholder-driven actions that reduce profits in the short run?

Behavioral economics questions related to SRC that we will try to address in this course include: 1) To what extent are firm owners, workers, and consumers truly altruistic and socially minded—willing to reduce their own private material well-being in exchange for improved societal outcomes? 2) To what extent are economic and social outcomes actually improved when individual economic actors attempt to be socially minded? 3) What are the roles of ego and image concerns—the desires to *appear* socially minded—in driving SRC behaviors and outcomes? 4) How are SRC and the “mistakes” part of behavioral economics related: is it “socially irresponsible” for firms to exploit consumers' behavioral biases and mistakes to increase profits?

Other major behavioral economic topics that we will cover in this course are: biases in belief updating, violations in expected utility theory, present bias and behavioral intertemporal choice, and limited strategic

thinking. Since behavioral economics extends standard economics (and does not replace it), this course will also serve as a review of major topics and models from standard microeconomic theory. I also hope this class will help you better understand behavior you encounter in everyday life in a wide variety of settings— why people act in seemingly puzzling ways— and to help you better understand, and improve, your own judgment and decision-making. That means to sometimes make more rational decisions in the traditional sense— and to sometimes be more rational in a broader, less direct sense. A final goal of the class is that I hope it will help improve both your oral and written communication skills, and comfort participating in somewhat large group discussions.

Format: Approximately the first two thirds of this course will cover behavioral economics in general and in the last third of the course we'll focus on SRC. In the last few weeks you will work on a research project on a topic related to SRC, culminating in writing an approximately 10-page research paper. In a nutshell, you will do an in-depth study of a specific topic of your choice related to SRC, in which you apply and expand on material we've learned throughout the term and material you've learned in other economics classes. Relevant deadlines are on the course schedule below, and more details TBA.

Since this is a seminar class, you will be expected to participate in class discussions on a regular basis. This will enhance your class experience and learning – the more you participate, the more engaged and focused you'll be; you'll learn more, and you'll help others (and me) learn more. There will also be three in-class quizzes to assess, and incentivize, how well you're keeping up throughout the semester.

The schedule of readings is below – you should refer to this throughout the term to know what to read for each class, though I may often make modifications, which I'll communicate by email with ample notice. I recommend writing down comments or questions that occur to you while doing the readings that might be worth sharing with the class. I will sometimes give you discussion questions to consider in advance or post comments on to Canvas. If you miss class, please email me or the entire class (or post to Canvas) reactions to the reading (one or two paragraphs) before class starts. More info on how participation grades are determined to come.

Grading and communication/feedback: Your course numeric grade will be calculated as a weighted average as follows:

Participation – pre-spring break	10%
Participation – post-spring break	10%
Quizzes 1 and 2	15% each
Quiz 3 (covers more material than 1 & 2)	20%
Paper outline	5%
Presentation	5%
Paper	20%

I use a 10-point scale for letter grades with 3 point increments for 'half-grades' ($\geq 93.0 = A$; ≥ 90.0 and $< 93 = A-$, ≥ 87.0 and $< 90 = B+$, etc) with the potential for some grades being curved upward. Don't hesitate to come to my office hours or set up an appointment any time you'd like to discuss anything or if you feel you need additional feedback. If you have questions on how you are doing grade-wise at any point during the semester, let me know. All course documents and grades will be posted to Canvas or emailed to you. I'll

provide you with an online form to provide anonymous (constructive!) feedback *to me* throughout the semester.

Books: There are two required books:

Thinking, Fast and Slow, Daniel Kahneman, 2011 (2002 Econ Nobel laureate)

Reimagining Capitalism in a World on Fire, Rebecca Henderson, 2019

We will also read selections that I will provide from Misbehaving (Thaler, 2015), Scout Mindset (Julia Galef – Econ PhD dropout!), Animal Spirits and Phishing for Phools (Akerlof and Shiller), Nudge: The Final Edition (Thaler and Sunstein); Bayes Rules! (Johnson et al, 2021).

Articles (PDFs or links on Canvas or distributed by email):

Allcott, H., Montanari, G., Ozaltun, B., & Tan, B. (2023). An economic view of corporate social impact (No. w31803). https://www.nber.org/system/files/working_papers/w31803/w31803.pdf

Barberis, N. "Thirty Years of Prospect Theory in Economics: A Review and Assessment." *Journal of Economic Perspectives*, 2013. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.1.173>

Bénabou, R. and Tirole, J., 2010. Individual and corporate social responsibility. *Economica*.

Bénabou, R. and Jean Tirole "Mindful Economics: The Production, Consumption, and Value of Beliefs." *Journal of Economic Perspectives*, 2016.

Bikhchandani, S., et al. "Information Cascades and Social Learning." NBER WP, 2021.

Bursztyn, L. and Jensen, R. "Social Image and Economic Behavior in the Field: Identifying, Understanding, and Shaping Social Pressure." *Annual Review of Economics*, 2017.

Crawford et al. "Structural Models of Nonequilibrium Strategic Thinking: Theory, Evidence, and Applications." *Journal of Economic Literature*, 2013.

Fehr and Schmidt. "The Economics of Fairness, Reciprocity and Altruism – Experimental Evidence and New Theories." <http://epub.ub.uni-muenchen.de/13484/1/66.pdf>

Frederick, Loewenstein and O'Donoghue. "Time Discounting and Time Preference: A Critical Review." *Journal of Economic Literature*, 2002.

Grubb, M. "Overconfident Consumers in the Marketplace." *Journal of Economic Perspectives*. 2015.

Hart, O. and Zingales, L., 2017. Companies Should Maximize Shareholder Welfare Not Market Value. *Journal of Law, Finance, and Accounting*.

<https://www.eui.eu/Documents/DepartmentsCentres/Economics/Seminarsevents/Oliver-Hart.pdf>

Mailath, G. "Do People Play Nash Equilibrium? Lessons From Evolutionary Game Theory." *Journal of Economic Literature*, 1998.

Kitzmüller, M. and Shimshack, J., 2012. Economic perspectives on corporate social responsibility. *Journal of economic literature*. <https://pubs.aeaweb.org/doi/pdfplus/10.1257/jel.50.1.51>

Nussbaum, E. "What Tina Fey Would Do for a SoyJoy", *New York Magazine*, 10-3-2008.

Rabin and Thaler. "Anomalies: Risk Aversion." *Journal of Economic Perspectives*, 2001.

Surowiecki, J. "Later: What does procrastination tell us about ourselves?" *The New Yorker*, 2010.

Sunstein and Thaler, "THE TWO FRIENDS WHO CHANGED HOW WE THINK ABOUT HOW WE THINK," *The New Yorker*, Dec 7, 2016.

Wallace, David Foster. "This is water." <https://www.youtube.com/watch?v=xoblutORPNA>.

Course schedule and readings (subject to change; events to note in **bold**, readings are required unless noted otherwise)

22-Jan Syllabus; brief history and definition of behavioral econ

Part I: Non-standard belief formation

24-Jan Two systems ('Psych 101') (Kahneman, Introduction, Chs 1, 3-4, 6-7, 9; don't worry about the "Speaking of" parts at the end of the chapters throughout the book)

29-Jan Hot hand/gambler's fallacy/ law of small numbers; Bayes' rule (Kahneman, Ch. 10; Johnson et al Ch 1 through 1.2, <https://www.bayesrulesbook.com/chapter-1.html>)

31-Jan Stock mkt applications; anchoring, availability (Misbehaving p.205-209 (to "Keynes is now remembered...") and ch 22; Kahneman, Chs 11-13)

5-Feb Biases continued: representativeness, conj fallacy, reg to mean, causal stories (Chs 14-18)

7-Feb Overconfidence (Kahneman, Chs 19-22; overprecision, Grubb intro; DFW Kenyon)

12-Feb Overconfidence ctd (Kahneman, Chs 23-24, more on motivated reasoning; Benabou and Tirole, JEP 2016, up to "Portable Paradigm," selections from Galef)

14-Feb **Quiz 1**

Part II: Non-standard decision-making

19-Feb Loss aversion/endowment effect (Kahneman, Part IV, Chs 25-28)

21-Feb Implications of EU and prospect theory (Rabin and Thaler, 2001 JEP; Barberis 2013 JEP)

26-Feb Probability weighting/risk (Kahneman, Chs 29-32)

28-Feb Kahneman, Chs 33-34; Nudge selection; start intertemporal choice

4-Mar Intertemporal choice, present bias (Thaler, Chs 11-12)

6-Mar **Quiz 2**

Spring break (!)

Part III: Social interactions and SRC

25-Mar Game theory (Mailath, 1998, sect 1-2; level-K: Crawford et al, 2013, p.5-7 + sect 2.4)

27-Mar Games ctd (Nussbaum) and social influence (Nudge ch 3; Bursztyn and Jensen, 2017)

1-Apr Social pressure ctd; start social preferences (Fehr and Schmidt introduction; Thaler, p.125-6 + chs 14-15)

3-Apr Social preferences ctd

8-Apr Economic perspectives on SRC: JEP 2012, Benabou and Tirole, Hart and Zingales

10-Apr Measurement: ESG, B Corps, benefit companies, other certifications. Henderson, Prologue-Ch3

15-Apr Book club: Henderson Chs 4-5; critique of SRC reading TBD; polarization and SRC

17-Apr Henderson Chs 6-8; Allcott et al; consumer surplus & firm/consumer game; greedflation

22-Apr **Quiz 3**

24-Apr Guest speaker: Alex Jones, Associate Director, Governance and Sustainability, Rivel

Paper topic approval deadline: April 25, 5pm

29-Apr Working class; **paper outline due end of class (4:15pm)**

May 1, 6, 8: Student presentations; SRC debate (?)

TBD: **final paper due**