

List of Topics

Topics are separated in the five loosely defined categories: Models of rationality and early deviations, Evidence of non-rational behavior, Models of bounded rationality and their applications, Non-rational behavior? Interpretations and applications and Competition and Rationality: The role of (Financial) Markets.

For each topic there are one or two references that should be used as a **starting point** for the seminar paper. You have to find and "use" additional literature. Once a student is assigned to a topic she or he will be assigned a supervisor who is responsible for the details of the seminar paper.

General remarks: Topics marked with *B* are suitable for Bachelor students, topics marked with *M* are suitable for Master students, * means that the seminar paper for this topic has to be written in English (for Bachelor and Master students). Underlined symbols (*M*) indicate that the topic is better suited for Master students, but is generally open to advanced Bachelor students and students with prior knowledge in that area.

Models of rationality and early deviations

1) Reckoning with risk: expected utility theory and its discontents (*M / B*)

Friedman, M., and L. J. Savage (1948), "The Utility Analysis of Choices Involving Risk", *The Journal of Political Economy*, 56(4), 279-304

Ellsberg, D. (1961), "Risk, Ambiguity, and the Savage Axioms", *The Quarterly Journal of Economics*, 75(4), 643-669

2) Alternative models of decisions under risk (*B*)

Kahneman, D., and A. Tversky (1979), "Prospect Theory: An Analysis of Decision Under Risk", *Econometrica*, 47(2), 263-291

3) As-if rationality and bounded rationality (*M* / *B*)

Day, R. (1967), "Profits, Learning and the Convergence of Satisficing to Marginalism", *The Quarterly Journal of Economics*, 81(2), 302-311

Conlisk, J. (1996), "Why Bounded Rationality?", *Journal of Economic Literature*, 34(2), 669-700

4) Rationality in games (*M* / *B*)

Binmore, K. (1987), "Modeling Rational Players Part I", *Economics and Philosophy*, 3(2), 179-214

Goeree, J. K., and C. A. Holt (2001), "Ten Little Treasures of Game Theory and Ten Intuitive Contradictions", *The American Economic Review*, 91(5), 1402-1422

Evidence of non-rational behavior

5) The role of errors in decision making (*M / B*)

Baumol, W., and R. Quandt (1964), "Rules of Thumb and Optimally Imperfect Decisions", *American Economics Review*, 54(1), 23-46

Pingle, M., and R.H. Day (1996), "Modes of economizing behavior: Experimental evidence", *Journal of Economic Behavior & Organization*, 29(2), 191-209

6) Incentive effects: wages and working hours (*M / B*)

Camerer, C., L. Babcock, G. Loewenstein, and R. Thaler. (1997), "Labor supply of New York City cabdrivers: One day at a time", *The Quarterly Journal of Economics*, 112(2), 407-441

7) Temptation and possible consequences (*M / B*)

DellaVigna, S., and U. Malmendier (2004), "Contract design and self-control: Theory and evidence", *The Quarterly Journal of Economics*, 119(2) 353-402.

Gul, F., and W. Pesendorfer (2001), "Temptation and self-control", *Econometrica*, 69(6), 1403-1435.

Models of bounded rationality and their applications

8) Information search and decision quality (*M / B*)

Simon, H. A. (1955), "A behavioral model of rational choice", *The quarterly journal of economics*, 99-118

Caplin, A., M. Dean, and D. Martin (2011), "Search and satisficing", *The American Economic Review*, 101(7), 2899-2922

9) Evidence on hyperbolic discounting in the lab and in the field (*M / B*)

Thaler, R. H. (1991), "Some Empirical Evidence on Dynamic Inconsistency", *Quasi rational economics*, 1, 127-136

Meier, S., and C. Sprenger (2010), "Present-Biased Preferences and Credit Card Borrowing", *American Economic Journal: Applied Economics*, 2(1), 193-210

10) Hyperbolic discounting: The role of self-awareness (*M / B*)

Ariely, D., and K. Wertenbroch (2002), "Procrastination, deadlines, and performance: Self-control by precommitment", *Psychological science*, 13(3), 219-224

Bauer, M., J. Chytilová, and J. Morduch (2012), "Behavioral Foundations of Microcredit: Experimental and Survey Evidence from Rural India", *The American Economic Review*, 102(2), 1118-1139

11) Modeling the depth of reasoning: Level-k thinking (*B*)

Nagel, R. (1995), "Unraveling in guessing games: An experimental study", *The American Economic Review*, 85(5), 1313-1326

Carpenter, J., M. Graham, and J. Wolf (2013), "Cognitive ability and strategic sophistication", *Games and Economic Behavior*, 80, 115-130

12) The limits of backward induction (*M / B*)

Johnson, E. J., C. Camerer, S. Sen, and T. Rymon (2002), "Detecting failures of backward induction: Monitoring information search in sequential bargaining", *Journal of Economic Theory*, 104(1), 16-47

Levitt, S., J. List, and S. Sadoff (2011), "Checkmate: Exploring Backward Induction among Chess Players", *The American Economic Review*, 101(2), 975-990

Non-rational behavior? Interpretations and applications

13) Consistency and heterogeneity of social preferences (M)

Andreoni, J., and J. Miller (2002), "Giving According to GARP: An Experimental Test of the Consistency of Preferences for Altruism", *Econometrica*, 70(2), 737-753

Fisman, R., S. Kariv, and D. Markovits (2007), "Individual preferences for giving", *The American Economic Review*, 97(5), 1858-1876

14) Consistency of consumption choices (B)

Harbaugh, W., K. Krause and T. Berry (2001): "GARP for Kids: On the Development of Rational Choice Behavior", *American Economics Review*, 91, 1539-1545

15) Strategic behavior and prosocial preferences (M / B)

Andreoni, J., and J. Miller (1993), "Rational Cooperation in the Finitely Repeated Prisoner's Dilemma: Experimental Evidence", *Economic Journal*, 103, 570-585

Lazear, E. P., U. Malmendier, and R. A. Weber (2012), "Sorting in experiments with application to social preferences", *American Economic Journal: Applied Economics*, 4(1), 136-163

Competition and Rationality: The role of (Financial) Markets

16) The impact of Individual Behavioural Biases and Aggregate Level Economic Outcomes (M / B)*

Bao, T., C. Hommes, J. Sonnemans, and J. Tuinstra (2012), "Individual Expectations, Limited Rationality and Aggregate Outcomes", *Journal of Economic Dynamics and Control*, 36(8), 1101–1120

Fehr, E., and J.-R. Tyran (2005), "Individual Irrationality and Aggregate Outcomes", *Journal of Economic Perspectives*, 19(4), 43–66

17) Markets as an Information Aggregation Tool and its Challenges (M / B)*

Plott, C. R., and K.-Y. Chen (2002), "Information aggregation mechanisms: Concept, design and implementation for a sales forecasting problem", *mimeo*

Plott, C. R. (2000), "Markets as information gathering tools", *Southern Economic Journal*, 67(1), 2-15

18) Bubbles and Crashes: Evidence from the Field and the Lab (M / B)*

Smith, V., G. Suchanek, and A. Williams (1988), "Bubbles, Crashes, and Endogenous Expectations in Experimental Spot Asset Markets", *Econometrica*, 56(5), 1199–1151

Allen, F., and D. Gale (2000), "Bubbles and crises", *The economic journal*, 110(460), 236-255

19) Financial Contagion and Bank Runs (M / B)*

Allen, F., and D. Gale (2000), "Financial contagion", *Journal of political economy*, 108(1), 1-33

Diamond, D. W., and P. H. Dybvig (1983), "Bank runs, deposit insurance, and liquidity", *The journal of political economy*, 401-419