

# IB9AM-30 Behavioural Microeconomics

**23/24**

**Department**

Warwick Business School

**Level**

Taught Postgraduate Level

**Module leader**

Graham Loomes

**Credit value**

30

**Module duration**

10 weeks

**Assessment**

40% coursework, 60% exam

**Study location**

University of Warwick main campus, Coventry

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## Description

### Introductory description

The aim of this module is to examine the foundations of microeconomic analysis from a behavioural perspective. The module is aimed at those with a first degree in psychology or other cognate discipline who wish to follow the MSc in Behavioural and Economic Science (Science Track) administered by the Psychology Department and run in conjunction with WBS and the Economics Department.

### Module aims

The module aims to introduce basic microeconomic concepts to non-economists. It will achieve this objective by subjecting many of the fundamental assumptions made in standard undergraduate degree courses to close critical scrutiny. It will familiarise students with recent research developments in behavioural economics and the possible implications for theory and policy raised by these developments.

### Outline syllabus

This is an indicative module outline only to give an indication of the sort of topics that may be

covered. Actual sessions held may differ.

#### 1. FOUNDATIONS of CONVENTIONAL MICROECONOMICS

Indifference and demand curve analysis: the underlying assumptions; the derivation of demand functions, and the general framework of marginalist analysis and the role of equilibrium.

#### 2. DECISIONS INVOLVING RISK AND UNCERTAINTY

a) Conventional (Subjective) Expected Utility Theory: the standard assumptions and what they imply.

b) Alternative models – various types of challenge to the standard assumptions: interactions between payoffs and probabilities; probability weighting, loss aversion, decision heuristics; noise and error, including the imprecision of preferences and the bounds on rationality.

#### 3. DECISIONS INVOLVING TIME

a) Conventional notions of time preference and discounting.

b) Various challenges: dual-self models; hyperbolic discounting; procrastination.

#### 4. STRATEGIC BEHAVIOUR

The standard assumptions underpinning conventional game theory, and questions about them: about utility and the nature of preferences, including social preferences; about knowledge and information; about reasoning and rationality and equilibrium.

Behavioural game theory – in particular, ‘cognitive hierarchy’ and ‘team reasoning’ models; imprecision and noise in values and beliefs.

#### 5. WELFARE ECONOMICS

The conventional analytical framework: introduction to imperfect/asymmetric information, adverse selection and moral hazard; externalities, public goods; cost-benefit analysis, regulation and the public provision of goods and services.

Challenges presented by failures of the underlying assumptions – with particular reference to health, safety and environmental policy. Behavioural welfare economics, including ‘nudging’ and libertarian paternalism.

### **Learning outcomes**

By the end of the module, students should be able to:

- Demonstrate a firm grasp of the fundamental concepts underpinning conventional economic analysis and be able to evaluate the strengths and weaknesses of these concepts, interpreted in the light of psychological models and methods.
- Show a good understanding of the implications of contending economic and psychological models for the analysis of, and predictions about, economic behaviour.
- Show an ability to use quantitative techniques appropriately for the organisation of data and the testing of hypotheses.
- Evaluate models in terms of their theoretical foundations, their structure and their capacity to explain behavioural data.
- Start to develop models of their own and/or design novel studies to test existing models.
- Demonstrate good communication skills when writing reports and presenting findings.

### **Indicative reading list**

Ariely, D.: Predictably Irrational. Harper Collins (2008).

Bruni, L. and Sugden, R.: The Road not Taken: How Psychology was Removed from Economics and How It Might be Brought Back, Economic Journal, 117, 146-73, (2007).

Camerer, C.: Behavioral Game Theory: Experiments on Strategic Interaction. Princeton University Press (2003).

Camerer, C., Loewenstein, G. and Rabin, M.: Advances in Behavioral Economics. Princeton University Press (2003).

Della Vigna, S.: Psychology and Economics: Evidence from the Field, Journal of Economic Literature, June 2009, Vol. 47, pp.315-372.

Frank, R. and Cartwright, E: Microeconomics and Behaviour. McGraw-Hill (2013).

Kahneman, D. and Tversky, A.: Choices, Values and Frames. Cambridge University Press (2000).

Starmer, C.: Developments in Non-Expected Utility Theory: The Hunt for a Descriptive Theory of Choice under Risk, Journal of Economic Literature, Vol. 38, 332-382 (2000).

Thaler, R. and Sunstein, C.: Nudge. Penguin (2009).

Wilkinson, N. and Klaes, M.: An Introduction to Behavioral Economics, 3rd - Edition. Palgrave Macmillan (2018).

### **Subject specific skills**

None.

### **Transferable skills**

Written Communication

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## **Study**

### **Study time**

<b>Type</b>	<b>Required</b>
Lectures	20 sessions of 2 hours (13%)
Seminars	8 sessions of 1 hour 30 minutes (4%)
Private study	99 hours (33%)
Assessment	149 hours (50%)
Total	300 hours

### **Private study description**

Private study to include preparation for lectures and seminars

### **Costs**

No further costs have been identified for this module.

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## Assessment

You do not need to pass all assessment components to pass the module.

### Assessment group D2

	<b>Weighting</b>	<b>Study time</b>
Individual Assignment	40%	60 hours
Written Examination	60%	89 hours

- Answerbook Pink (12 page)
- Students may use a calculator
- Graph paper

### Feedback on assessment

Feedback via My.WBS

[Past exam papers for IB9AM](#)

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## Availability

### Courses

This module is Core for:

- TPSS-C8P7 Postgraduate Taught Behavioural and Economic Science (Science Track)
  - Year 1 of C8P7 Behavioural and Economic Science (Science Track)
  - Year 1 of C8P7 Behavioural and Economic Science (Science Track)

This module is Optional for:

- Year 1 of TIBS-N1B0 Postgraduate Taught Business (Marketing)