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Applied Economic Theory: Behavioral Public Economics

Course aim and objectives

The course introduces students to topics of behavioral public economics. Students learn to reflect on the distinction between normative and positive reasoning in economic discussions. This is grounded on an in-depth recapitulation of foundations of neoclassical economic theory and subsequent development of behavioral model elements in public economics. Students discuss and evaluate policy applications regarding major challenges in public economics.

All students are expected to participate both in the lecture and tutorial.

Course credits

Students in study regulation 22/23 take this class in combination with the seminar by Peter Mohr covering topics in Behavioral Public Economics (starting in the second half of the term) for 12 credit points.

Students in previous study regulations take the class as a separate lecture for 6 credit points. The course is opened for PhD students in any year of their study.

Students	**Examination**	**Grading**
MA: Study regulation 22/23	Presentation in class (20-25min) Oral exam (15-20 min)	**Pass/Fail**
MA: Study regulation 12/13	Presentation in class (20-25min) Oral exam (15-20 min) Seminar paper 10 pages	40 % 60 %
PhD	**Presentation in the PhD Brown Bag Seminar (30 min)** **Oral exam (30 min)** **Seminar paper 15 pages**	**40 %** **60 %**

Course structure

1. Introduction
   - 1.1 Aim and scope of the course
   - 1.2 From classical to neoclassical to behavioral economics
   - 1.3 Behavioral economics
   - 1.4 On the relevance of happiness economics

2. Individual welfare: concepts and measurement
   - 2.1 Utility and preferences satisfaction
     - 2.1.1 The standard utility function
     - 2.1.2 Rational choice and revealed preferences
   - 2.2 Variants of the standard utility function
     - 2.2.1 Other-regarding preferences
     - 2.2.2 Relative comparisons
     - 2.2.3 Identity-augmented utility
   - 2.3 (Subjective) Expected utility
   - 2.4 Intertemporal utility
   - 2.5 Conclusion

3. Standard welfare economics
   - 3.1 The efficiency credo: Pareto criterion and the compensation test
   - 3.2 The application of welfare functions
   - 3.3 Market efficiency
   - 3.4 Market imperfections and market failure
   - 3.5 Conclusion

4. Heuristics, biases, and framing
   - 4.1 Opportunity costs and the sunk cost fallacy
   - 4.2 Endowment effect, loss aversion, and framing
   - 4.3 Time discounting, adaptation and anticipation bias
   - 4.4 Remembered vs decision vs experienced utility
   - 4.5 Context dependency

5. Normative challenges
    5.1 What constitutes welfare?
    5.2 BE and welfare maximization: A pragmatic approach
    5.3 The behavioral public economics approach
        5.3.1 Behavioral revealed preferences
        5.3.2 Subjective wellbeing as a proxy for utility
    5.4 Paternalism
        5.4.1 The paternalistic dictator
        5.4.2 BE and paternalism
        5.4.3 Mean paternalism vs. end paternalism
        5.4.4 Hard paternalism
        5.4.5 Asymmetric paternalism and libertarian paternalism
    5.5 Objections to paternalism
        5.5.1 Voters and the false consensus bias
        5.5.2 The political economy of paternalism

6. Policy areas
    6.1 Taxation
        6.1.1 Sin taxes or a neoclassical justification
        6.1.2 Tax salience and tax compliance
        6.1.3 Easterlin paradox and the case for progressive taxation
    6.2 Nudging
        6.2.1 Retirement savings
        6.2.2 Improving health
    6.3 Improving cost-benefit analysis
        6.3.1 Standard instruments and incentive-compatible revelation mechanisms
        6.3.2 Embedding effects
        6.3.3 Wellby-measure
    6.4 Fighting unemployment
    6.5 Market design