

## Behavioral Choice Theory

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## Course Description

This course will offer an introduction to the classical theory of choice as well as nonstandard preference models, including preferences for commitment and flexibility, reference dependent preferences, time-nonseparable preferences, preferences for the timing of the resolution of uncertainty, and interdependent (social) preferences.

We will begin by covering the classical theory of choice using David Kreps' book, *Notes on the Theory of Choice* (ISBN: 0813375533; for some comparison shopping online, see [here](#)). Because of time limitations, it could be helpful to have a look at this very clear and concise book prior to the start of the course.

To preview some of the "behavioral" preferences that we will examine and to illustrate the applications thereof, I recommend looking at the following survey before the course begins:

David Backus, Bryan Routledge, and Stanley Zin (2004). "Exotic Preferences for Macroeconomists," *NBER Macroeconomics Annual*.

To learn more about the experimental literature and some arguments for nonstandard preference models, I also recommend the following:

Shane Frederick, George Loewenstein, and Ted O'Donoghue (2002). "Time Discounting and Time Preference: A Critical Review," *Journal of Economic Literature*, 40, 351-401.

## Requirements and Grading

Students will be graded based on a short term paper (around 8 pages) which can be on a topic from either the first or second half of 520a, and which will be graded by the corresponding instructor. During my part of the course I will offer (optional) exercises to solve.

## Reading List

We will not be able to cover all of these papers in detail during class; but they are all highly recommended reading for those interested in the relevant topics.

Ahn, David and Haluk Ergin (2007). "Framing Contingencies," Working Paper.

Ambrus, Attila and Kareen Rozen (2009). "Rationalizing Choice with Multi-Self Models," Cowles Working Paper.

Becker, Gary and Kevin Murphy (1988). "A Theory of Rational Addiction," *The Journal of Political Economy*, 96 (4), 675-700.

Dekel, Eddie, Bart Lipman, and Aldo Rustichini (2001). "Representing Preferences with a Unique Subjective State Space," *Econometrica*.

Dillenberger, David and Kareen Rozen (2010). "Disappointment Cycles," Working Paper.

Epstein, Larry (2008). "Living with Risk," *Review of Economic Studies*, 75(4), 1121-1141

Fudenberg, Drew and David Levine (2006). "A Dual-Self Model of Impulse Control," *American Economic Review*, 96, 1449-1476.

Gul, Faruk and Wolfgang Pesendorfer (2007). "The Canonical Space for Behavioral Types," Working Paper.

Gul, Faruk and Wolfgang Pesendorfer (2007). "Harmful Addiction," *Review of Economic Studies*, 74 (1), 147-172.

Gul, Faruk and Wolfgang Pesendorfer (2005). "The Revealed Preference Theory of Changing Tastes," 72 (2), 429-448.

Gul, Faruk and Wolfgang Pesendorfer (2001). "Temptation and Self Control," *Econometrica*, 69 (6), 1403-1435.

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

Koszegi, Botond and Matthew Rabin (2009). "Reference Dependent Consumption Plans," *American Economic Review*, 99(3), 909-936.

- Koszegi, Botond and Matthew Rabin (2006). "A Model of Reference Dependent Preferences," *Quarterly Journal of Economics*, 1133-1166.
- Kreps, David (1979). "A Representation Theorem for 'Preference for Flexibility'" *Econometrica*, 47 (3), 565-578.
- Kreps, David and Evan Porteus (1978). "Temporal Resolution of Uncertainty and Dynamic Choice Theory," *Econometrica*, 46 (1), 185-200.
- Laibson, David (1997). "Golden Eggs and Hyperbolic Discounting," *Quarterly Journal of Economics*, 62, 443-77.
- Masatlioglu, Yusufcan and Efe Ok (2006). "Reference Dependent Procedural Decision Making," Working Paper.
- Masatlioglu, Yusufcan and Efe Ok (2005). "Rational Choice with Status Quo Bias," *Journal of Economic Theory*, 121 (1), 1-29.
- Noor, Jawwad (2009). "Decreasing Impatience and the Magnitude Effect Jointly Contradict Exponential Discounting," *Journal of Economic Theory*, 144(2), 869-875.
- O'Donoghue, Ted and Matthew Rabin (1999). "Doing it Now or Later," *American Economic Review* 89(1), 103-124.
- Rozen, Kareen (2010). "Foundations of Intrinsic Habit Formation," *Econometrica*, 78(4), 1341-1373.
- Salant, Yuval and Ariel Rubinstein (2008). "(A,f) Choice with Frames," *Review of Economic Studies*, 75(4), 1287-1296.
- Segal, Uzi and Joel Sobel (2006). "Tit for Tat: Foundations of Preferences for Reciprocity in Strategic Settings," Working Paper.
- Strotz, R.H. (1955). "Myopia and Inconsistency in Dynamic Utility Maximization," *The Review of Economic Studies*, 23 (3), 165-180.