

# Specialization: Behavioral and Experimental Economics



Univ. Prof. Dr. Gerlinde Fellner-Röhling  
Nina Xue, Ph.D.

Department of Economics


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# What is Behavioral Economics?

Behavioral Economics is *"the attempt to increase the explanatory and predictive power of economic theory by providing it with more psychologically plausible foundations."*

Angner (2016, p.4)

- The main aim is to **understand economic behavior** and its consequences:
  - Why do people go to work, save for retirement, give to charity, get a qualification, gamble on a horse race?
  - Do people make good or bad choices can they be helped to make better choices?
- Behavioral economics **applies insights** from laboratory **experiments, psychology**, and other social sciences in economics
- By testing the **standard economic model** to see when it works and when it does not, behavioral economics asks whether and how it can be **modified** to better fit what we observe 

Cartwright (2014)

# Field course: Behavioral and Experimental Economics



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# Main topics covered in the course

<b>Chapter</b>	<b>Topic</b>	<b>Content</b>
Behavioral decision theory	Judgement and choice	Probability judgments and beliefs, utility formation, menu effects and framing, mental accounting, loss aversion, prospect theory, ...
Intertemporal choice	Time-(in)consistency	Discounting, measurement of time preferences, self-control problems, present bias, types of sophistication
Behavioral game theory	Cognitive limitations	Bounded rationality, levels of reasoning
Social preferences	Other-regarding behavior	Fairness, altruism, cooperation, reciprocity, trust, strategic concerns



# Main topics covered in the course

In each topic we will

- **review** the neoclassical (or standard) **theory** of behavior
- **highlight** empirically observed **systematic departures** from this standard theory
- **draw on** some **in-class** (thought) **experiments** to recognize the same systematic departures in own decision-making
- learn about **alternative theories of behavior** that incorporate insights from psychology and other disciplines to explain the observed departures from the standard theory and to make better predictions



# An example of judgement

*"Linda is thirty-one years old, single, outspoken, and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination and social justice, and also participated in antinuclear demonstrations."*

What is more likely?

- a) Linda works in a bank.
- b) Linda works in a bank and is a feminist.



# Some challenges for the standard economic model

- Why do sellers often value their goods and services much higher than buyers?
- Why is someone willing to drive through a snowstorm to see a soccer game when they have paid for the ticket but not when they have been given the ticket for free?
- Why do people forever make resolutions to go on a diet or stop smoking, only to give in later?
- Why are people delighted to hear they are going to get a 10% raise in salary, and are then furious to find out a colleague gets 15%?
- Why do people donate to charity?
- Why do people ask strangers to give them directions?



# Grading

Grading is based on three parts:

Midterm exam	40%
Final exam	40%
Problem sets	20%

We will discuss the solutions to the problem sets in class.

Grading scheme of the course:

Points	Grade
100-90	1
89-80	2
79-70	3
69-60	4
<60	5





# Literature used in the course

- Angner, E. (2016). A Course in Behavioral Economics (2<sup>nd</sup> ed.). Palgrave Macmillan. (*e-book available in library*)
- Cartwright, E. (2014) Behavioral economics (2<sup>nd</sup> ed.) Routledge.
- Wilkinson, N. & Klaes, M. (2012). An introduction to behavioral economics. Palgrave-McMillan
- *Journal articles*



# Research and Policy Seminar: Behavioral and Experimental Economics



**Nina Xue, Ph.D.**

**Summer term 2025**



# Experimental Economics in a nutshell

**Experimental economics** = a method to analyze human behavior in a controlled environment that allows for causal inference using randomized control-trials

## Laboratory experiments:

- + Control
- "Artificial" situation



## Field Experiments:

- Less control
- + Natural situation



# Overview

Students get theoretical **input** on **how to design an economic experiment.**

- Objectives of experiments
- Components of an experimental design
- Commonly used methods
- Quality criteria and paradigms
- Sample size calculations
- Hypotheses testing
- Incentives
- Practical suggestions



- Then, students will **work on an experimental project** of their own (in **groups**) throughout the semester.
  - Formulate a research question
  - Develop a specific experimental design to test it
  - Establish a pre-analysis plan
  - Write a research paper
- Groups will be coached by the lecturer.



- Two presentations (each 15%)
  - Presentation 1: research question and first ideas on an experimental design
  - Presentation 2: final experimental design
  
- Research paper (70%)
  - Motivation
  - Related literature
  - Research gap
  - Research question
  - Experimental design and procedure
  - Hypotheses
  - Pre-analysis plan
  - Limitations



# Project ideas

- Proposed by students or based on some suggestions
- For example
  - Social identity and decision making
  - Gender differences in workplace behavior (error reporting, sabotage, ...)
  - Effects of conflict of interest disclosure
  - Explaining information avoidance
  - Peer effects in decision making
  - .....
- If you are interested in following up with a master thesis, you can ...
  - program and run the experiment for real (at WULABS or online)
  - apply for funding (WU merit-based and need-based scholarship grants)

