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Economists have become increasingly interested in the connection between economics and psychology. Psychological insights about human nature can be informative for economic models. This course surveys a variety of topics at the crossroads of economics and psychology, including: sex differences in mating strategies, economics of the family, risk taking and harm avoidance, time preference, mental accounts, manipulative and violent behavior, altruism and reciprocity, the connection between emotions and economic behavior, concern for relative status, participation in cults, and addictions. We will explore how combining psychology with economics can help explain behavior in many realms, such as marriage and mating, work and investing. Much material comes from recent research. The psychological perspective comes mostly from evolutionary psychology.

Books: There are three books that we will use in this course, all available at the bookstore:

1. The Moral Animal: Why We Are the Way We Are: The New Science of Evolutionary Psychology, paperback reprint edition, by Robert Wright (Vintage Books, 1995).
2. Guns, Germs and Steel: The Fates of Human Societies, paperback edition, by Jared Diamond (W. W. Norton, 1999).
3. Irrational Exuberance, by Robert J. Shiller (Princeton University Press, 2000).

Prerequisites: Microeconomic Theory (Econ 201 or 401) and Macroeconomic Theory (Econ 202 or 402).

Grading: The course grade is based on the following:

Midterm (in class, Thursday, October 24)	25 percent
Research Paper (due December 10, 12:00 noon)	25 percent
Final Exam (Thursday, December 19, 12:30 – 2:30 p.m.)	50 percent

No make-up or early exams will be given. Students should check their schedules to make sure that no conflicts occur on these exam dates.

Reading: This class is reading intensive. But unlike most economics texts, the required books contain mostly verbal arguments rather than equations and graphs. One of the authors, Robert Wright, is a journalist, not an economist. And Jared Diamond is a physiologist who writes well. But some of the articles contain advanced material, much of which can be skipped. The detailed reading schedule below explains when to do the reading and how to approach the material.

Class Meetings: The lecture will begin precisely at the beginning of the scheduled class time. All students are required to arrive at least 3 minutes early for all classes, so that we can start (and end) on time.

## Topics and Readings

### I. *Genes and Evolution*

Reading: Richard Dawkins, The Selfish Gene, chapter 2, pp. 13-21. *This is a short chapter that contains the ideas that are outlined in Handout 1. You should read through it right away, to make sure you understand the “replicator” principle.*

Handout: Handout 1—“Evolutionary Preliminaries.”

### II. *An Introduction and Overview of Evolutionary Psychology*

Reading: Robert Wright, The Moral Animal. *This book is best read right at the beginning, pretty much all at once, during the first two weeks of the class. It provides the foundation for the evolutionary theory that we will refer to time and time again throughout the course. The book is written by a journalist for the educated non-specialist, so it is especially accessible and clear. The use of Darwin himself as a case study for some of the psychological concepts is sort of clever, though if you are pressed for time you can skim the chapters that deal with Darwin’s life (the book makes clear which chapters those are). The ideas from this book will emerge repeatedly in nearly all the handouts that will be distributed in class.*

### III. *Dating, Mating, Marriage and Children*

Reading: *This section focuses on material from The Moral Animal, chapters 1-6, which you should have mostly read by now. In addition, when we get to the material in Handout 6, you should read the article listed below. Note that this article is marked with a star (\*). Starred articles contain technical material that can be skipped, that is, you can read the words and skip the equations.*

\*Lena Edlund, “Son Preference, Sex Ratios, and Marriage Patterns.” Journal of Political Economy (December 1999), pp. 1275-1305. *An economic analysis of the ‘Trivers-Willard’ hypothesis. This article pertains to the material that will be covered in Handout 6.*

Handouts: Handout 2—“The Battle of the Sexes,” Part I.

Handout 3—“The Battle of the Sexes,” Part II.

Handout 4—“The Battle of the Sexes,” Part III, and  
“Sexual Selection and the ‘Handicap Principal’.”

Handout 5—“The Selfish Gene Once Again: Kin Selection and Hamilton’s Rule.”

Handout 6—“The Trivers-Willard Effect.”

#### IV. *How Geography and History Interact with Biology*

Reading: Jared Diamond, Guns, Germs and Steel, parts 1-3. *One of the most insightful books ever written. The most definitive argument against “biological determinism.” One of the main points: genetic influences act in concert with environmental influences; one or the other cannot be analyzed in a vacuum.*

Handout: Handout 7—“Geography, History and the Distribution of Economic Well Being.”

#### V. *Family Life—Giving, Exchanging and Taking*

Reading: *This section uses the material from The Moral Animal, chapter 7. In addition, there are four articles related to this section. Again, the rule for any article marked with the (\*) is to read the words and skip the equations.*

1. \*Donald Cox, “Motives for Private Income Transfers.” Journal of Political Economy (June 1987). *Why altruism may not be the whole story behind parental money transfers to children. On CD.*
2. Donald Cox, “How Do People Make Transfers in the Family?: Mothers, Fathers, Sons and Daughters.” Working Draft, Boston College, (September 2002), (47 pages). *This paper adds considerations of reproductive biology to the economics of the family. Some of its ideas are a bit alien to economists, but by now they will look familiar to you. On CD.*
3. \*Helen V. Tauchen, Ann Dryden Witte, and Sharon K. Long, “Domestic Violence: A Nonrandom Affair.” International Economic Review 32 (May 1991): 491-511. *A theoretical and empirical investigation of men behaving badly toward their spouses and girlfriends. On CD.*
4. George A. Akerlof and Janet L. Yellen, “New Mothers, Not Married.” The Brookings Review, (no. 4 1996), pp. 18-21. *A short synopsis of a provocative new explanation for the rise of single-parent families.*

Handouts: Handout 8—“The Economic Implications of Altruism,”  
“The Exchange Model,”  
“Altruism and Exchange Together.”

Handout 9—“The Economics of Temper Tantrums.”

## VI. *Ways that Non-relatives Cooperate and Ways They Fight*

**Reading:** *Can having a hair-trigger temper actually facilitate rather than discourage trade? How about a guilty conscience? The term “emotion” often implies being out of control and irrational. But, as the authors of these papers argue, maybe emotions play a “smart” role in the grand scheme of things, and complement rather than work against, our rational sides.*

1. \*Robert Frank, “If Homo Economicus Could Choose His Own Utility Function, Would He Want One with a Conscience?” American Economic Review (September 1987), pp. 593-604. *This article contains a lot of ideas that will be useful for understanding cooperative interaction among non-relatives. On CD.*
2. Jack Hirshleifer. “On the Emotions as Guarantors of Threats and Promises.” In John Dupre, ed., The Latest on the Best: Essays in Evolution and Opimality. (Cambridge, MA: MIT Press, 1987). *How emotions might facilitate trade. On CD.*
3. Jack Hirshleifer. “The Dark Side of the Force.” Economic Inquiry 32 (January 1994), pp. 1-10. *A discussion of anti-social behavior using an economic framework. On CD.*

**Handouts:** Handout 10—“Friendship, Reciprocity, the Division of Labor and Trade.”

Handout 11—“Frank’s Analysis of Emotions and Exchange.”

## VII. *The Economic Psychology of Jobs and Networks*

**Reading:** *The world of work is filled with weird practices and behavior. Just ask Dilbert! And not just the corporate world, either; all kinds of jobs have puzzling quirks. Take academic tenure, for instance. A guarantee of lifetime employment doesn’t seem like a very good way to create work incentives. Should we throw up our hands at such crazy looking institutions? Or might they really make sense once we start looking at them in a different way?*

1. Donald Cox, “Informal Networks, Institutions and the ‘Soap Opera’ Constraint.” Working Draft, Boston College, (March 1999), (30 pages). *Causes and consequences of a limited capacity for workers to ‘bond’ with one another. On CD.*
2. Edward P. Lazear, “Labor Economics and the Psychology of Organizations.” Journal of Economic Perspectives (Spring 1991), pp. 89-110. *Various ways that psychology and economics intersect in analyses of workplace issues. On CD.*
3. George A. Akerlof, “Labor Contracts as Partial Gift Exchange.” Quarterly Journal of Economics (November 1982), pp. 543-569. *How jobs can sometimes be thought of in the same light as families and friends. On CD.*
4. Uri Gneezy and Aldo Rustichini. “Pay Enough or Don’t Pay at All.” Quarterly Journal of Economics (August 2000), pp. 791-810. *Psychological concepts of ‘intrinsic’ versus ‘extrinsic’ motivation.*

## VII. *The Economic Psychology of Jobs and Networks (continued)*

Handouts: Handout 12—“The ‘Soap Opera’ Constraint: Gossip, Grooming, Networks and the Division of Labor.”

Handout 13—“Psychology and the Workplace.”

## VIII. *Coordination and Social Capital*

Reading: \*Edward P. Lazear, “Culture and Language.” Journal of Political Economy (December supplement 1999). *When to assimilate and when not to.*

Handout: Handout 14—“Coordination and Social Capital.”

## IX. *Clubs, Cooperatives, Cults and Gangs*

Reading: *What do Hare Krishnas, academic economists, Hell’s Angels, and Israeli Ultra-Orthodox Jews all have in common? Perhaps more than you might have guessed.*

1. \*Laurence R. Iannaccone, “Sacrifice and Stigma: Reducing Free-riding in Cults, Communes, and Other Collectives.” Journal of Political Economy (April 1992), pp. 271-291. *Why are there cults? What keeps them together? This paper contains a new way to think about the behavior of academic economists, religious fundamentalists, motorcycle club members, and terrorists, among others. On CD.*
2. \*Eli Berman, “Sect, Subsidy and Sacrifice: An Economist’s View of Ultra-Orthodox Jews.” Quarterly Journal of Economics (August 2000), pp. 905-954. *A case study of Iannaccone’s idea applied to the Ultra-Orthodox Jews in Israel.*

Handout: Handout 15—“Collective Behavior: Religious Sects, Clubs, Gangs, Communes and Cults.”

## X. *Fads, Fashion and Conformity*

Reading: *How many beliefs do you currently hold right now that are completely false? Plus, how your friends might drag you down.*

1. \*Sushil Bikhchandani, David Hirshleifer, and Ivo Welch, “Learning from the Behavior of Others: Conformity, Fads, and Informational Cascades.” The Journal of Economic Perspectives (Fall 1998), pp. 151-170. *An analysis of how ideas can spread by imitative behavior. On CD.*
2. George A. Akerlof, “Social Distance and Social Decisions.” Econometrica (September 1997), pp. 1005-1027. *The economic implications of wanting to be close to your neighborhood friends.*

Handout: Handout 16—“Conformity: Fads, Fashion, Herd Behavior and Other Ways of Sticking with the Crowd.”

## XI. *Revolutions*

Reading: Timur Kuran, “The East European Revolution of 1989: Is it Surprising that We Were Surprised?” American Economic Review (May 1991), pp. 121-125. *This paper contains clues as to why pedophilia in the Catholic Church went unreported for so long, and also why the scandal broke so suddenly.* **On CD.**

Handout: Handout 17—“Revolutions.”

## XII. *Context and Status*

Reading: *Two short items having to do with status and frames of reference.*

1. Robert H. Frank, “Frames of Reference and the Quality of Life.” American Economic Review (May 1989), pp. 80-85. *How happy you are probably depends on more than just goods and services. It also might depend on how you are doing relative to others or relative to how you were doing before.* **On CD.**
2. Theodore S. Geisel and Roy McKie, Ten Apples on Top! (Random House, Inc., 1961). *An illustrated illustration of status seeking.*

Handout: Handout 18—“Status.”

## XIII. *Traditions, Habits and Addictions*

Reading: Becker, Gary S. “Habits, Addictions and Traditions.” Kyklos (No. 3 1992), pp. 327-46. *Why the past matters for today’s consumption.*

Handout: Handout 19—“Habits and Addictions.”

## XIV. *Impatience*

Reading: *Why do people procrastinate? Is it because of a quirk in their utility functions, or because of their upbringing?*

1. \*George-Marios Angeletos, David Laibson, Andrea Repetto, Jeremy Tobacman and Stephen Weinberg, “The Hyperbolic Consumption Model: Calibration, Simulation, and Empirical Evaluation.” Journal of Economic Perspectives (Summer 2001), pp. 47-68. *You can concentrate on the verbal arguments, which are mostly given in the beginning, and ignore the technical material.* **On CD.**
2. \*Gary S. Becker and Casey B. Mulligan, “The Endogenous Determination of Time Preference.” Quarterly Journal of Economics (August 1997), pp. 729-58. *Why growing up in a rich family might make someone more future-oriented.*

Handout: Handout 20—“Impatience.”

### XV. *Anomalies*

Reading: Daniel Kahneman, Jack L. Knetsch and Richard H. Thaler, “Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias.” Journal of Economic Perspectives (Winter 1991), pp. 193-206. *Taking something away from someone is a lot harder than not giving it to them in the first place. Some thoughts about the ‘endowment effect.’ This paper illustrates some of the more “traditional” approaches to economic psychology. On CD.*

### XVI. *Money*

Reading: Robert Shiller, Irrational Exuberance. A recent analysis of investing and the stock market, integrating psychology and economics.

Handout: Handout 21—“Irrational Exuberance.”

## Schedule

*Following this list exactly will keep you at or ahead of the material being covered in class. Reading averages about 70 pages per class meeting. Much of the early material is lighter fare than what is in economics textbooks, but some of the later articles contain dense technical material, which can be skipped. The rule for the technical articles is to read the words, skip the equations, and concentrate on grasping the “big-picture” concepts rather than the technical details.*

*The roman numerals refer to the topics listed in the reading list above.*

<u>Date</u>		<u>Topics</u>	<u>Reading</u>	<u>Exams and Due Dat</u>
September 3	---	---		
September 5	I		<u>Selfish Gene</u> , chap. 2. Start <u>Moral Animal</u> .	
September 10	II		You should be well into <u>Moral Animal</u> , part I.	
September 12	III		You should have finished <u>Moral Animal</u> part I and be Well into part II.	
September 17	III		Finished part II, well into part III of <u>Moral Animal</u> .	
September 19	III		You should have finished <u>Moral Animal</u> by now. Read Edlund (1999).	
September 24	III		You should have read though part I of <u>Guns, Germs and Steel</u> .	
September 26*	III		You should be well into part II of <u>Guns, Germs and Steel</u> .	TERMPAPER TOPICS DUE
October 1	IV		Finish part II of <u>Guns, Germs and Steel</u> .	
October 3	IV		Start part III of <u>Guns, Germs and Steel</u> .	
October 8	V		Finish part III of <u>Guns, Germs and Steel</u> .	
October 10	V		Cox (1987).	
October 15	V		Cox (2002).	
October 17	V		Tauchen, Witte and Long (1991).	

<u>Date</u>			<u>Topics</u>	<u>Reading</u>	<u>Exams and Due Dat</u>
October	22	V		Akerlof and Yellen (1996).	REVIEW
October	24*	---		---	MIDTERM EXAM
October	29	VI		Frank (1987).	
October	31	VI		Hirshleifer (1987), Hirshleifer (1994).	
November	5	VII		Cox (1999), Lazear (1991).	
November	7*	VII		Akerlof (1982), Gneezy and Rustichini (2000).	TERMPAPER PROGRESS REPORT DUE
November	12	VIII		Lazear (1999).	
November	14	IX		Iannaccone (1992), Berman (2000).	
November	19	X		Bikchandani, et. al. (1998), Akerlof (1997).	
November	21	XI		Kuran (1991).	
November	26	XII		Frank (1989), Geisel and McKie (1961).	
December	3	XIII		Becker (1992).	
December	5	XIV, XV		Angeletos, et. al. (1998), Becker and Mulligan (1997), Kahneman, et. al. (1991).	
December	10*	XVI		You should be halfway through <u>Irrational Exuberance</u> .	LAST DAY OF CLASSES TERMPAPERS DUE
December	11-12	---		Finish <u>Irrational Exuberance</u> .	
December	19*	---		---	FINAL EXAM, 12:30 – 2:30 p.m.

NOTE: Starred (\*) dates will not be changed.