Boston College
Department of Economics

EC329.01: Decisions: Theories and Experiments

Fall 2012

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Lectures  Always in Carney 102.

- Sept. 5, 12, 19, Nov. 7, 14, and Dec. 5: W 3:00–5:50.

Note that there is no meeting on Sept. 26.

Website  All problem sets, solutions, lecture notes, old exams, sites of relevant articles etc. will be loaded to the course site at WebCT. Please familiarize yourself with it and make sure to check it frequently.

Office Hours  Monday 2:00–3:00. The TA, Francesca Toscano, will have a weekly office hour. Time TBA.

Prerequisites  EC201 or EC203.

Exams  There will be two exams.

1. Midterm: Oct 24, 3:30–5:20, 40% of the course grade if higher than the final exam’s grade, 20% if lower than the final exam’s grade.

2. Final: TBA, 55% of the course grade if lower than the midterm exam’s grade, 75% if higher than the midterm exam’s grade (see “homework” below).
You have to attend both exams. If you know in advance that you will not be able to take an exam, come and see me as early as possible. If you do not take an exam and you do not have a just reason for it, your grade for that exam will be zero. If you take the exam, its grade, whatever it is, will not be waived.

Homework There will be 9 problem sets. You have to solve and submit all of them. You’ll get 1 point towards your course grade if you submit 5 set, 2 points if you submit 6,..., and 5 points if you submit all 9 sets. A problem set is considered submitted if you answered at least half of it. You have to submit each problem set up to one week after the day it was circulated.

All problem sets must be submitted electronically to the course website. I will provide you with solutions to the problem sets. Their aim is to help those of you who tried to solve a problem and want to check their solution (or to find out where they’ve gone wrong). Please let me know if you find any mistakes in the notes or the solutions.

Some (but not all) problems from the problem sets will be discussed in class.

Lecture Notes Every week, before class, I will distribute (electronically) the slides I intend to use during the lecture. Please print them and bring them to class. During the lecture you’ll be able to mark them according to the discussion in class.

Readings There is no textbook that covers all the topics we’ll discuss (the slides are supposed to be a substitute). During the term I’ll mention some books and articles that are relevant to the topics we’ll discuss. A list of suggested readings will be loaded to the website.

Some Other Points

1. I very strongly encourage you to participate and ask questions.

2. Please do not use computers in class. They are disruptive, and not very helpful as it is very hard to type math quickly. And you’ll get the slides anyway.

3. The best way to communicate with me (except of course for during the lectures or office hours) is by email. I tend to answer emails
until 1 or even 2am. Emails sent on Friday afternoon will not be answered till Saturday night. I’ll be off-line from September 16 in the afternoon to September 18 in the evening, and similarly on September 25–26, September 30–October 2, and October 7–9. When you send me an email use your BC account and make sure that the subject is “EC329.”

4. Class Behavior: As said before, please don’t use a computer in class. Also, no food and of course no cell phones in class.

A Note on Academic Integrity You are expected to observe the highest standards of academic integrity. Please review the standards and procedures at http://www.bc.edu/integrity. If you have any questions, please consult with me. Violations will be reported to the Deans’ Office and reviewed by the College’s Committee on Academic Integrity.

Course Outline Many economic situations involve some uncertainty. Consumers and producers are uncertain about prices in the future; drivers face the risk of a car accident; homeowners face the risk of theft and fire; investors are uncertain about future performances of firms; etc. In this course we will analyze such situations and we’ll see how markets perform under risk.

In the last thirty years a huge body of research tried to question the main assumption maintained by economists, namely that individuals are rational. We will discuss some of this evidence and the new theories that developed to answer these challenges. Here are some of the topics we will discuss.

1. Why not expected value?
2. Expected utility theory: axioms, theorem, uniqueness.
7. Prospect theory, rank dependent utility, betweenness, quadratic utility.
8. Orders of risk aversion and full insurance.
10. Non additive and non multiplicative probabilities.
11. Do people have preferences?