

Summer Semester 2015

Seminar “Topics in PsychoEconomics”

B.Sc. Econ, Profilgruppe “PsychoEconomics”

Prof. Dr. Carlos Alós-Ferrer

This seminar will cover **experimental and empirical research articles**. We will discuss recent developments in (behavioral) decision and game theory, with a special emphasis on the **psychological foundations** of behavior. The general aim is to understand how human decision makers depart from economic rationality. This semester, we will concentrate on the following interrelated topics: (1) why **monetary incentives** do not always work, (2) how **overconfidence** affects performance, and (3) whether there are **gender differences** in performance.

Requirements and evaluation:

Each student will choose a topic at the beginning of the course and will be assigned either a research article or a group of short research notes. The seminar grade will be based upon a short, slide-based **presentation** (25 minutes) and a **written report** (10-15 pages) on the assigned topic.

Students should have already passed the course “Grundzüge der Mikroökonomik” or equivalent (basic microeconomics), and have elementary knowledge of **statistics** (tests). It is recommended (but not required) to have already followed or be following the course “Game Theory” (Spieltheorie) and to either have followed the course “Behavioral Decision Theory” last semester or be following the course “Psychological Foundations of Economic Decision Making” this semester (both in the Profilgruppe Psychoeconomics).

The seminar language is **English**, but the written report can also be provided in German.

Structure and organization:

The seminar takes place **Wednesdays 16:00-17:30** in Lecture Room S90 (Philosophikum building). The first two meetings in the semester will be in the form of lectures to introduce the topics and clarify the standards and contents of presentations and reports. Starting in mid-May, student presentations will follow, at a rate of two or three per week depending on coordination. Further information about the seminar (including all deadlines) will be provided in the first meeting, April 8th, 2015. For questions, please contact

office.alos-ferrer@wiso.uni-koeln.de

Seminar topics:

The following list of topics and literature (see following pages for details) is provisional and meant to serve as an orientation at this point. Additional papers can be added as needed, e.g. depending on students' interest. “General references” below are the reading materials for the introductory part of the course and are *not* meant for student's presentations. All other papers present experimental or empirical evidence.

1. Incentives and Motivation
2. Overconfidence
3. Gender Effects in Performance and Competition

Topic 1: Incentives and Motivation.

Classical economics assumes that increased (monetary) incentives result in increased effort, and increased effort translates in increased performance. A large number of experiments have shown that this relationship is actually very complex. This part of the course will examine the experimental literature on this topic.

General references:

- Camerer, C. F. and Hogarth, R. M. (1999). The Effects of Financial Incentives in Experiments: A Review and Capital-Labor-Production Framework. *Journal of Risk and Uncertainty*, 19(1-3):7-42.
- Deci, E. L., Koestner, R., and Ryan, R. M. (1999). A Meta-Analytic Review of Experiments Examining the Effects of Extrinsic Rewards on Intrinsic Motivation. *Psychological Bulletin*, 125(6):627-668.
- G. Douglas Jenkins, J., Mitra, A., Gupta, N., and Shaw, J. D. (1998). Are Financial Incentives Related to Performance? A Meta-Analytic Review of Empirical Research. *Journal of Applied Psychology*, 83(5):777-787.
- Bonner, S. E., Hastie, R., Sprinkle, G. B., and Young, S. M. (2000). A Review of the Effects of Financial Incentives on Performance in Laboratory Tasks: Implications for Management Accounting. *Journal of Management Accounting Research*, 12(1):19-64.

Papers for presentations:

- Frey, B. and Oberholzer-Gee, F. (1997). The Cost of Price Incentives: An Empirical Analysis of Motivation Crowding-Out, *American Economic Review*, 87 (4), 746–755.
- Gneezy, U., and Rustichini, A. (2000). Pay Enough or Don't Pay at All. *Quarterly Journal of Economics*, 115(3):791-810.
- Heyman, J. and Ariely, D. (2004). Effort for Payment. A Tale of Two Markets. *Psychological Science*, 15(11):787-793.
- DellaVigna, S., and Malmendier, U. (2006). Paying not to go to the gym. *American economic Review* 96(3), 694-719.
- Meloy, M. G., Russo, J.E., and Miller, E. G. (2006). Monetary incentives and mood. *Journal of Marketing Research* XLIII, 267-275.
- Dohmen, T. J. (2008). Detrimental Effects of Rewards. *Journal of Economic Behavior and Organization*, 65(3-4):636-653.
- Ariely, D., Gneezy, U., Loewenstein, G., and Mazar, N. (2009). Large Stakes and Big Mistakes. *Review of Economic Studies*, 76(2):451-469.
- Pascual-Ezama, D., Prelec, D., and Dunfield, D. (2013). Motivation, money, prestige and cheats. *Journal of Economic Behavior and Organization* 93, 367-373 .
- Agranov, M. and Tergiman, C. (2013). Incentives and compensation schemes: An experimental study . *International Journal of Industrial Organization* 31 (3), 238-247.
- Bäker, A. and Mertins, V. (2013). Risk-sorting and preference for team piece rates. *Journal of Economic Psychology* 34, 285-300.
- Klor, E. F., Kube, S., Winter, E., and Zultan, R. (2014). Can higher rewards lead to less effort? Incentive reversal in teams. *Journal of Economic Behavior and Organization* 97, 72-83.
- Hogarth, R. M. and Villeval, M.C. (2014). Ambiguous incentives and the persistence of effort: Experimental evidence. *Journal of Economic Behavior and Organization* 100, 1-19.

Topic 2: Overconfidence.

Human decision makers frequently overestimate their abilities, resulting in overconfidence. This part of the seminar examines the evidence and economic consequences of this psychological phenomenon.

General references:

- Moore, D. A. and Healy, P. J. (2008). The trouble with overconfidence. *Psychological Review*, 115(2), 502-517.
- Camerer, C. and Lovallo, D. (1999). Overconfidence and Excess Entry: An Experimental Approach, *American Economic Review* 89(1), 306-318.

Papers for presentations:

- Ben-David, I., Graham, J. R., and Harvey, C. R. (2013). Managerial Miscalibration. *The Quarterly Journal of Economics* 128 (4), 1547-1584.
- Hirschleifer, D., Low, A., and Teoh, S. H. (2012). Are Overconfident CEOs Better Innovators? *The Journal of Finance* LXVII (4), 1457-1498.
- Malmendier, U. and G. Tate (2005). Does Overconfidence Affect Corporate Investment? CEO Overconfidence Measures Revisited. *European Financial Management* 11(5), 649-659.
- Koellinger, P., Minniti, M., and Schade, C. (2007). "I think I can, I think I can": Overconfidence and entrepreneurial behavior. *Journal of Economic Psychology* 28 (4), 502-527.
- Grieco, D. and Hogarth, R. M. (2009). Overconfidence in absolute and relative performance: The regression hypothesis and Bayesian updating. *Journal of Economic Psychology* 30 (2009) 756-771.
- Krawczyk, M. (2012). Incentives and timing in relative performance judgments: A field experiment. *Journal of Economic Psychology* 33 (6), 1240-1246.
- Grossman, Z. and Owens D. (2012). An unlucky feeling: Overconfidence and noisy feedback. *Journal of Economic Behavior and Organization* 84 (2), 510-524.
- Buehler, R., Griffin, D., Lam, K. C. H., and Deslauriers, J. (2012). Perspectives on prediction: Does third-person imagery improve task completion estimates? *Organizational Behavior and Human Decision Processes* 117, 138-149.

Topic 3: Gender Effects in Performance and Competition.

Are there economically relevant gender differences? This part of the course looks at so-called “gender effects” in performance and motivation.

General references:

- Charness, G., and Gneezy, U. (2012). Strong Evidence for Gender Differences in Risk Taking. *Journal of Economic Behavior and Organization* 83(1), 50-58.
- Gneezy, U., Niederle, M., and Rustichini, A. (2003). Performance in Competitive Environments: Gender Differences, *Quarterly Journal of Economics*, 118, 1049-1074.

Papers for presentations

- Barber, B. M. and Odean, T. (2001). Boys will be Boys: Gender, Overconfidence, and Common Stock Investment, *Quarterly Journal of Economics* 116, 261–292.
- Niederle, M. and Vesterlund, L. (2007). Do Women Shy away from Competition? Do Men Compete too Much?, *Quarterly Journal of Economics*, 122(3), 1067-1101.
- Bellemare, C., Lepage, P., and Shearer, B. (2010). Peer Pressure, Incentives, and Gender: An Experimental Analysis of Motivation in the Workplace. *Labour Economics*, 17:276-283.
- Brenner, L. A., Koehler, D. J., Liberman, V., and Tversky, A. (1996). Overconfidence in Probability and Frequency Judgments: A Critical Examination. *Organizational Behavior and Human Decision Processes* 65(3), 212-219.
- Brandts, J., and Garofalo, O. (2012). Gender pairings and accountability effects. *Journal of Economic Behavior and Organization* 83(1), 31-41.
- Reuben, E., Rey-Biel, P., Sapienza, P., and Zingales, L. (2012). The emergence of male leadership in competitive environments. *Journal of Economic Behavior and Organization* 83 (1), 111-117.
- Dato, S. and Nieken, P. (2014). Gender differences in competition and sabotage. *Journal of Economic Behavior and Organization* 100, 64-80.