Course information 2025-26
EC3019: Behavioural Economics

General information

MODULE LEVEL: 6

CREDIT: 30

NOTIONAL STUDY TIME: 300 hours

Summary

This course examines the principles and methods of Behavioural Economics. Students are introduced to the theories and evidence for psychological biases in people's decisions, and the implications for economic outcomes, policies, and interventions.

Conditions

Prerequisite: If taken as part of a BSc degree, the following course(s) must be attempted before students are permitted to register for this course:

- EC2066 Microeconomics AND
- ST104A Statistics 1

Aims and objectives

This course examines the principles and methods of Behavioural Economics, which has profoundly changed the practice of economics in recent years. Behavioural economics considers ways in which people are more social, more impulsive, less adept at using information, and more susceptible to psychological biases than the standard economic models assume. By adding these psychologically more realistic assumptions to rigorous economic models we obtain new predictions and implications for individuals, firms, and policy. The course begins by considering departures from neoclassical preferences, before examining systematic departures from rational expectations and concluding with behavioural approaches to competition, welfare, and policy.

Learning outcomes

At the end of this course, and having completed the Recommended reading and activities, students should be able to:

- Identify and evaluate evidence for systematic departures of economic behaviour from the assumptions of the neoclassical model, and psychological explanations for these anomalies.
- Incorporate psychologically motivated assumptions into economic models, and interpret the implications of these assumptions.
- Explain how these models change the predictions for individual and equilibrium behaviour, and assess the implications for welfare analysis and optimal policy.
- Compare the predictions of neoclassical and behavioural models, and evaluate the best method for approaching a given topic.

Employability skills

Below are the three most relevant skill outcomes for students undertaking this course which can be conveyed to future prospective employers:

1. Complex problem solving

2. Decision making

3. Creativity and innovation

Essential reading

- Wilkinson, Nick; Klaes, Matthias. (2017) *An Introduction to Behavioral Economics. 3rd ed.* Bloomsbury
- Dhami, S. (2016). *The Foundations of Behavioral Economic analysis.* Oxford University Press.

Assessment

This course is assessed by a three-hour and fifteen minute closed-book written examination.

Syllabus

Part I: Departures from "Rational" Preferences

- Behavioural Economics vs. Neoclassical Economics - Methods and Assumptions
- Decisions under Risk and Uncertainty
- Prospect Theory and Reference-Dependent Preferences
- Utility from Beliefs
- Social Preferences

Part II: Departures from Rational Beliefs

- Time Preferences and Present Bias
- Mistakes in State-Dependent Preferences
- Heuristics and Biases in Judgment
- Behavioural Game Theory

Part III: Implications for Competition, Welfare, and Policy

- Competition and Behavioural Industrial Organisation
- Behavioural Policy and Welfare Analysis
- Happiness