Experimental and Behavioral Economics

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This course provides an introduction into the techniques of experimental economics and applies these techniques to important research questions in different fields of economics. At the end of the course students should be able to design and run their own experiments examining their preferred questions. I assume that students have a basic knowledge of microeconomic theory and game theory at the level of, for example, Hal Varians advanced textbook on “Microeconomic Analysis” and Robert Gibbons textbook on “Game Theory for Applied Economists”. Course requirements are Micro I (14.121) and Micro II (14.122). The course consists of 12 lectures. It will take place every Wednesday from 4-7 p.m. between 10 September and 15 October 2003.

During the weeks of this course there will also be the opportunity to attend a mini-course (2-3 half-days) on the programming of experiments. The currently dominant software for the programming of experiments is z-TREE, which has been developed by Dr. Urs Fischbacher. The mini-course by Dr. Fischbacher will probably take place on 9-10 October.

Below you will find a short outline of the course and a preliminary reference list. I strongly recommend to the students to read the articles with an asterisk.

Lecture 1&2: Introduction to the methods, objectives, advantages and limitations of laboratory experiments
Lecture 3: Competitive Experimental Markets
Lecture 4: Bargaining Behavior
Lecture 5: Fairness and Competition
Lecture 6: Voluntary Cooperation and Public Goods Provision
Lecture 7: Enforcement of Social Norms
Lecture 8: Theories of Fairness and Reciprocity
Lecture 9: Behavioral Economics of Incentives and Contracts I
Lecture 10: Behavioral Economics of Incentives and Contracts II
Lecture 11: Loss Aversion and Labor Supply
Lecture 12: The Economics of Money Illusion
Lecture 1 & 2: Methods, Objectives, Advantages and Limitations of Laboratory Experiments

Davis, Douglas and Holt, Charles (1993); Experimental Economics, Princeton University Press, Princeton, New Jersey: Chapter 1, Introduction and Overview

Lecture 3: Competitive Experimental Markets

Lecture 4: Bargaining Behavior

Cameron, Lisa (1999); “Raising the Stakes in the Ultimatum Game: Experimental Evidence from Indonesia”, Economic Inquiry, Vol. 37, No. 1, 47-59

Lecture 5: Fairness and Competition

Lecture 6: Voluntary Cooperation and Public Goods Provision


Lecture 7: Enforcement of Social Norms


Lecture 8: Theories of Fairness and Reciprocity

Falk, Armin and Urs Fischbacher (1999); “A Theory of Reciprocity”, Working paper No. 6, Institute for Empirical Research in Economics, University of Zürich.

Lecture 9: Behavioral Economics of Incentives and Contracts I

Fehr, Ernst and Simon Gächter (1998); “How Effective are Trust- and Reciprocity-Based Incentives”, In: A. Ben-Ner, L. Putterman (Eds.), Economics, values and organization, Cambridge University Press
Fehr, Ernst and John List (2002); The Hidden Costs and Returns of Incentives – Trust and Trustworthiness among CEOs, Institute for Empirical Research in Economics, University of Zürich, Working Paper No. 134
Lecture 10: Behavioral Economics of Incentives and Contracts II


Lecture 11 Loss Aversion and Labor Supply

Ernst Fehr and Lorenz Goette (2002); „Do Workers work more if Wages are high? – Evidence from a Randomized Field Experiment“, Working paper No. 125, Institute for Empirical Research in Economics, University of Zürich.

Lecture 12: The Economics of Money Illusion

*Shafir, Eldar and Diamond, Peter and Tversky, Amos (1997); “Money Illusion”, Quarterly Journal of Economics, Vol. 112, No. 449,
Fehr, Ernst and Tyran, Jean Robert (2002); Limited Rationality and Strategic Interaction, Institute for Empirical Research in Economics, University of Zürich, Working Paper No. 130.