

Mattia Nardotto, Ph.D.  
Chair Prof. Ockenfels,  
SS 2013/14

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Number:

Title: Seminar Economic Design and Behavior: Economic Decision Making, Market Outcomes and Policy - Theory and Evidence

Time and place: June 27<sup>th</sup> – 28<sup>th</sup>; Room 4.211 (4th floor), Student service center

**First meeting:** April 9<sup>th</sup>, from 14:00 to 15:00; **Room 3.206 (3rd floor), Student service center.**

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**A)** As a precondition for successful participation in the seminar and acquire a certificate (Seminarschein/Leistungsschein), it is necessary to hand in a term paper about one of the topics listed below. This term paper has to be graded at least “sufficient/pass” (ausreichend). In addition, you will have to give a presentation on the topic of your term paper and actively participate in the seminar and the discussions. The term paper has to be written by every participant individually and the deadline for handing it in is June 13<sup>th</sup> 2013, 15:00 at the Institute of Prof. Dr. Axel Ockenfels.

**B)** The term paper should address the literature provided for your respective topic. It is your task to introduce, explain and discuss the key concepts and the main message of the literature in a maximum of 4000 words. Please note that it is not important to go into every detail and that it might be helpful or even necessary to search for further literature yourself. Illustrate the theoretical key concepts with examples or find research papers that deal with the topic.

**C)** Basic knowledge of standard economic decision theory is necessary. Depending on the sub–topic, knowledge of game theory and/or econometrics are necessary.

**D)** With respect to the presentation and the participation at the seminar, two things should be stressed. On the one hand, remember that the other participants will not be familiar with all aspects of the subject. Hence, it is important to appropriately convey the message and clarity will be rewarded. On the other hand, sub-topics are related between each other so active participation to the discussion is expected and will also be rewarded.

**E)** For each topic the readings listed below are minimal and not prescriptive (although suggested) and students are expected to go beyond them. Students can also propose their own specific topic provided that it is related to the main subject (in this case they are expected to contact the instructor to propose the subject). Creativity is rewarded!

**F)** You will receive further information during the first meeting that is held at the beginning of the semester. In case you have questions please contact: mattia.nardotto@uni-koeln.de

## Content of the seminar

The main purpose of the seminar is to discuss recent contributions to the consumer protection literature. The topics proposed range from information economics, more recent work on behavioral economics and industrial organization, and both theoretical and empirical studies aimed to assess the trade-offs implicit in regulatory interventions aimed to protect consumers.

### Topics

*Topic 1: The psychology of decision (max 2 people)*

Amos Tversky and Daniel Kahneman (1986), “Rational Choice and the Framing of Decisions”, *The Journal of Business* (also related book)

Keith Chen, Venkat Lakshminarayanan and Laurie R. Santos (2006), “How Basic Are Behavioral Biases? Evidence from Capuchin Monkey Trading Behavior”, *Journal of Political Economy*

*Topic 2: Price dispersion – search costs (max 1 person)*

Hal Varian (1980), “A Model of Sales”, *American Economic Review*

Salop, Steven, and Joseph Stiglitz (1977), “Bargains and ripoffs: A model of monopolistically competitive price dispersion”, *The Review of Economic Studies*: 493-510.

*Topic 3: Price dispersion – search, obfuscation and bounded rationality (max 1 person)*

Glenn Ellison (2006), “Bounded Rationality in Industrial Organization”,

Ellison, Glenn and Ellison, Sara Fisher (2009), “Search, Obfuscation, and Price Elasticities on the Internet”, *Econometrica*

*Topic 4: Behavioral economics – 1, Overconfidence (max 1 person)*

Della Vigna, Stefano, and Ulrike Malmendier (2006) “Paying Not to Go to the Gym”, *American Economic Review*, vol. 96 (3), pp. 694–719

*Topic 5: Behavioral economics – 2, Projection bias (max 1 person)*

George Loewenstein, Ted O’Donoghue and Matthew Rabin “Projection Bias in Predicting Future Utility”, *The Quarterly Journal of Economics* (2003) 118 (4): 1209-1248

*Topic 6: Behavioral economics – 3, Consumer myopia (max 1 person)*

Xavier Gabaix David Laibson (2006), Shrouded Attributes, Consumer Myopia and Information Suppression in Competitive Markets, *The Quarterly Journal of Economics*

*Topic 7: Consumer forward looking behavior (max 2 people)*

Abaluck, Jason, and Jonathan Gruber. “Choice Inconsistencies among the Elderly: Evidence from Plan Choice in the Medicare Part D Program”, *The American Economic Review*, 101.4 (2011): 1180-1210.

Aron-Dine, Aviva, et al. “Moral hazard in health insurance: How important is forward looking behavior?”, No. onb12-15. *National Bureau of Economic Research*, 2012.

*Topic 8: Contracting (max 5 people)*

Kfir Eliaz and Ran Spiegler (2006), “Contracting with Diversely Naive Agents”, *Review of Economic Studies*.

Spiegler, Ran. (2006), “The market for quacks”, *The Review of Economic Studies* 73.4: 1113-1131.

Heidhues, Paul and Köszegi, Botond (2010), “Exploiting Naïvete about Self-Control in the Credit Market”, *American Economic Review* vol. 100, pp. 2279–2303

Grubb, Michael D. “Selling to overconfident consumers”, *The American Economic Review* (2009): 1770-1807.

Della Vigna, Stefano, and Ulrike Malmendier (2004) “Contract Design and Self-Control: Theory and Evidence”, *Quarterly Journal of Economics*, vol. 119 (2), pp. 353–402

*Topic 9: Regulation (max 4 people)*

Mark Armstrong and Yongmin Chen (2009), Inattentive Consumers and Product Quality, *Journal of European Economic Association*

Armstrong, Mark, John Vickers, and Jidong Zhou, (2009), “Consumer protection and the incentive to become informed”, *Journal of the European Economic Association*

Grubb, Michael D. (2012), “Consumer inattention and bill-shock regulation”, No. 828. Boston College Department of Economics.

Inderst, Roman, and Marco Ottaviani (2013), “Sales Talk, Cancellation Terms and the Role of Consumer Protection”, *The Review of Economic Studies* 80.3: 1002-1026.

*Topic 10: Empirical evidence (max 5 people)*

Conlin, Michael, O’Donoghue, Ted and Vogelsang, Timothy J. (2007), “Projection Bias in Catalog Orders”, *American Economic Review*, Vol. 97, No. 4, 1217–1249

Miravete, Eugenio J. “Choosing the wrong calling plan? Ignorance and learning”, *American Economic Review* (2003): 297-310.

Benjamin Handel (2013): Adverse Selection and Switching Costs in Health Insurance Markets: When Nudging Hurts”, *American Economic Review* 103.7: 2643-2682

Gregory S. Crawford, Nicola Tosini, and Keith Waehrer (2011), “The Impact of Rollover Contracts on Switching Costs in the UK Voice Market: Evidence from Disaggregate Customer Billing Data”.

Grubb, Michael D., and Matthew Osborne (2012), “Cellular service demand: Biased beliefs, learning, and bill shock”, manuscript, MIT.