Course Description

Standard microeconomic theory is based on two main assumptions: Rationality and selfishness. When actual behavior of economic agents - as observed in economic experiments or in the field - does not conform to economic theory, this behavior might either contradict the rationality assumption or the selfishness assumption (or both). The first part of the course is devoted to the analysis of non-selfish preferences. Based on experimental evidence, we present behavioral models of altruism, envy, fairness, and reciprocity, and show their impact on different economic problems. The second part of the course deals with boundedly rational behavior and its impact on markets.

Prerequisites: knowledge of game theory and general equilibrium theory (level of Graduate Microeconomics I and II, or equivalent)

Reading List

Lecture 1: Introduction and Methodology of Experimental Economics
- Friedman, D. and Sunder, L (1994), Experimental Methods, A Primer for Economists, Cambridge U.P.
* Smith, Vernon (1982), Microeconomics as an Experimental Science, AER (72) , 923-955.

Lectures 2 and 3: Distributional Concerns and Other Regarding Preferences in General Equilibrium


Lecture 4: Reciprocity and the Impact of Beliefs


Lecture 5: The Impact of Beliefs on Payoffs - Psychological Game Theory


* Charness, Gary, and Martin Dufwenberg (2005), Promises and Partnerships, mimeo.


Lecture 6: The Indirect Evolutionary Approach and the Endowment Effect


Lecture 7: Non-equilibrium Strategic Thinking

* Breitmoser, Y. (2012), Strategic reasoning in p-beauty contests, Games and Economic Behavior 75, 555-569.


Lecture 8: Learning Models


Lecture 9: Experimental Comparisons of the Learning Models


Lecture 10: Market Experiments and Competition between Trading Institutions
Lecture 11: Learning and the Creation of Trading Platforms


Lecture 12: The Emergence of Trading Institutions


Kirchsteiger, G., M. Niederle and J. Potters (2005), Endogenizing Market Institutions: An Experimental
Approach; *European Economic Review* Vol. 49(7), 1827-1853.


references without a mark: discussed in some detail in the lecture
references with *: additional reading
references with -: overview literature