BSE Short Course:

Behavioral Industrial Organization

BSE Berlin School of Economics

Syllabus

1 Introduction

2 Basic Economics of Hidden Prices

3 Application: Comsumer Naivete in the Credit Market

4 Hidden Prices and Exploitative Distortions

5 Naivete-based Price Discrimination

6 Perception Externalities: Consumer Education

7 Perception Externalities: Obfuscation

8 Consumer Loss Aversion and Pricing

9 Behavioral Firms and Wrap-up

Course Overview

Based largely on a recent survey titled "Behavioral Industrial Organization" that Botond Kőszegi and I wrote for the Handbook of Behavioral Economic, this short course familiarizes students with this quickly developing field of research. Broadly speaking, behavioral industrial organization analyzes the implications of behavioral-economic models of individual decisionmaking for the functioning of markets. The primary focus of this short course lies on how rational firms exploit consumers tendencies to make systematic mistakes when evaluating contracts or products. But we will also talk about how rational firms respond to consumer preferences that differ from those typically imposed in classical economics, and how this impacts observable market outcomes.

In addition, we will touch on how psychological tendencies affect firm behavior – a newly developing subfield. Throughout, we will critically discuss the policy insights that follow from the behavioral-industrial-organization models discussed in class.

Lecturer

Prof. Dr. Paul Heidhues is Professor of Behavioral and Competition Economics at Dusseldorf Institute for Competition Economics (DICE). He worked on numerous topics in Industrial Organization and Competition Policy such as input-market bargaining power, merger control, and collusion. More recently, much of his work focuses on the functioning of markets when consumers are partly driven by psychological factors – such as social preferences, loss aversion, time-inconsistency, or naivete – that the classic consumer model abstracts from. Among other things, he has written on how firms optimally price products and design credit contracts in response to consumers' psychological tendencies, and he has investigated the implications of various consumer mistakes for the functioning of markets and for the desirability of consumer-protection regulation.

Prerequisites: Participants are expected to have a solid background in microeconomic theory, especially game theory and (simple) models of imperfect competition. Basic familiarity with behavioral-economic models of individual decision making is helpful but not required.

Place:
DIW Berlin
Mohrenstr. 58, 10117 Berlin

Organizers:
BERA
DIW Graduate Center

Time: March 15 – 18, 2019
10:00 – 11:30 Lecture
11:30 – 11:45 Coffee Break
11:45 – 13:15 Lecture
13:15 – 14:30 Lunch Break
14:30 – 16:30 Lecture
16:30 – 17:30 Q&A Session

Room:
March 15
Elinor Ostrom Hall 1.2.019

March 18-19
Anna J. Schwartz Room 5.2.010

General Inquiry:
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