

University of Colorado Boulder
Department of Economics
Econ 109
Office Hours: After Class + T/Th **10:45–11:45, 1:15–1:45**

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Spring 2026
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Description

Behavioral economics looks at departures from standard simplifying assumptions in economics. (Economics with those standard simplifying assumptions is often called “Neoclassical.”) Some key examples are:

- Imperfect information processing/finite and scarce cognition/bounded rationality, as opposed to the assumption of perfect decision making given the information and situation available.
- People caring about a large set of non-market goods, not just market goods and undifferentiated leisure. This includes caring about one’s internal emotional state.
- Internal conflict, as opposed to the assumption of a unitary internal decision-maker for each human being.
- Violations of standard (and often attractive) normative axioms, such as transitivity, the independence axiom for risk preferences, or the irrelevance of sunk costs.

Behavioral economics generates new issues for welfare theory: actual choice must be distinguished from idealized choice in revealed preference arguments; standard data may be much too limited for welfare assessments, social policy must often pick sides (or put a weight on the interests of different sub-personalities) when there is internal conflict; and departures from normative axioms may not always deserve deference. In addition, aggregating individual welfare across people to get a social welfare measure involves steps that have a kinship to behavioral economics.

Methods of Behavioral Economics

Although behavioral economics sometimes makes use of standard data, the majority of behavioral economics research involves the collection of new data, typically from lab experiments, field experiments or surveys. It often involves developing new (“behavioral”) micro theory or new applied econometrics. As in other applied courses, careful statistical identification must be emphasized.

Prerequisites

This course is intended for graduate students, but has no formal prerequisites. (Undergraduates are advised to instead take Economics 4060, “Ethics, Happiness and Choice.”) It will be taught in a way accessible to first-year graduate students who have time to take an extra course.

Disclaimer

Behavioral economics is too vast to cover everything in a one semester course. It is therefore appropriate to focus on those topics in behavioral economics about which the instructor has most knowledge, so that students get a deeper picture. Thus, the detailed content of the course should vary by instructor, and what follows is only one example of what the content and course requirements might look like.

Course Requirements

There will be a quiz focused on statistical identification (with an eye to the particular statistical issues that appear in behavioral economics), a take-home essay midterm and an empirical term project.

Required Book: [*Wellbeing: Science and Policy*](#), by Richard Layard and Jan-Emmanuel De Neve

Recommended Book: [*The Winner's Curse: Behavioral Economics Anomalies, Then and Now*](#), by Richard Thaler and Alex Imas, October 21, 2025 (not the much earlier edition with the same title).

Course Website: <https://blog.supplysideliberal.com/behavioral-economics>

Topics

- Finite Cognition
 - Explanatory Relevance
 - Modeling
- Survey Measurement of Preference Parameters
 - Large-Stakes, Medium-Stakes and Small-Stakes Risk Aversion/Loss Aversion
 - Elasticity of Intertemporal Substitution
 - Strength and Elasticity of Altruism
 - Income Elasticity of Labor Supply
 - Substitution Elasticity of Labor Supply
 - Inequality Aversion
 - Forward (effect of price on quantity) and Reverse (effect of quantity on price) elasticities.
- Preferences over Non-Market Goods
 - Preferences over 1800 “Aspects of Well-Being”
 - On-the-Job Utility
 - Efficiency Wages
 - Social Comparison
- The Economics of Happiness
 - Distinguishing Happiness from Utility
 - Modeling the Production Function for Happiness
 - Correcting for Scale-Use Heterogeneity
 - Constructing a National Well-Being Index
 - Bunching Identification in the Economics of Happiness
- Public Policy Implications of Behavioral Economics
 - Implications for Welfare Theory
 - Public Choice Alternatives
 - Using Nudges
 - Leveraging Altruism in Public Policy