

Prof. Dr. Armin Falk



Titel: Behavioral Labor Economics

Ort und Zeit: 2 Std., Do 9-11, HS G

Kursnummer: T015 (4 Punkte)

Zielpublikum: Hauptstudium und Graduiertenprogramm, Master "Economics" und Bachelor "VWL"

Course description:

The goal of behavioral economics is to increase the explanatory power of economics by providing it with a more realistic psychological foundation. This is of particular importance in labor economics, which typically studies how workers and employers interact in firms, organizations and markets. In this course we discuss the empirical relevance of non-standard preferences and boundedly rational behavior for selected labor market issues, focusing on the psychology of incentives, labor supply and market behavior. The evidence suggests that traditional labor economics tends to constrain attention to a very narrow and empirically questionable view of human motivation.

Preliminary Program

- I. Introduction
 - a. Advances in Behavioral Economics, ed. By Colin C. Camerer, G. Loewenstein and M. Rabin, Princeton University Press 2004.
 - b. Falk, A., Fehr, E., Why Labour Market Experiments, Labour Economics 10 (2003) 399–406.
- II. Psychology of incentives
 - a. Reciprocity and contract enforcement
 - i. Fehr, E., Falk, A., 2002. Psychological Foundations of Incentives, European Economic Review 46, 687-724.
 - ii. Fehr, E., Gächter, S., Kirchsteiger, G., 1997. Reciprocity as a contract enforcement device – experimental evidence. Econometrica 65, 833–860.
 - iii. Abeler, J., Altmann, S., Kube, S., Wibrals, M. 2006. Reciprocity and Payment Schemes: When Equality Is Unfair, IZA DP 2500
 - iv. Dohmen, T., Falk, A., Huffman, D., Sunde, U. 2006. Homo Reciprocans: Survey Evidence on Prevalence, Behavior and Success, IZA DP 2205
 - v. Gächter, S., Falk, A., 2002. Reputation and Reciprocity - Consequences for the Labour Relation, in: Scandinavian Journal of Economics 104 (2002), 1-26.
 - vi. Fehr, E., Klein, A., Schmidt, K.M., 2007. Fairness and Contract Design. Econometrica 75, 121-154.
 - b. Dysfunctional effects of explicit incentives
 - i. Falk, A., Kosfeld, M., 2006. The Hidden Costs of Control. American Economic Review 96, 1611-1630.

- ii. Fehr E. and S. Gächter, 2002. Do Incentive Contracts Crowd Out Voluntary Cooperation?, Institute for Empirical Research in Economics, University of Zürich, Working Paper No. 34
 - iii. Fehr E., Rockenbach, B., 2002. Detrimental effects of sanctions on human altruism, *NATURE* 422, 15 March 2002, 137-140.
 - iv. Fehr. E., List J., 2004. The Hidden Costs and Returns of Incentives – Trust and Trustworthiness among CEOs, *JEEA* 2, 743-771
 - v. Gneezy, U., Rustichini, A., 2000a. A Fine is a price. *Journal of Legal Studies* 29, 1–17.
 - vi. Gneezy, U., Rustichini, A., 2000b. Pay enough or don't pay at all. *Quarterly Journal of Economics* 115 (2), 791–810.
 - vii. Gneezy, U. 2004. The *W* effect of incentives. The University of Chicago Graduate School of Business.
 - c. Peer effects
 - i. Falk, A., Ichino, A., 2006. Clean Evidence on Peer Effects. *Journal of Labor Economics* 24, 39-57.
 - ii. Falk, A., Fischbacher, U., Gächter, S. 2004 Living in Two Neighborhoods - Social Interactions in the Lab, IZA DP 1381
 - iii. Ichino A. and G. Maggi, 2000. Work Environment and Individual Background: Explaining Regional Shirking Differentials in a Large Italian Firm. *Quarterly Journal of Economics* 115 (2000), 1057-1090.
 - iv. Zajonc, Robert B., “Social Facilitation”, *Science* 149 (1965), 269-274.
 - d. Sorting
 - i. Dohmen, T., Falk, A., 2006. Performance Pay and Multi-Dimensional Sorting: Productivity, Preferences and Gender, IZA DP 2001
 - e. Loss aversion, collusion and sabotage in the presence of tournament incentives
 - i. Bull, C., Schotter, A., Weigelt, K., 1987. Tournaments and piece rates: an experimental study. *Journal of Political Economy* 95, 1 – 33.
 - ii. Falk, A., Fehr, E. 2002. The Power and Limits of Tournament Incentives, unpublished manuscript.
 - iii. Harbring, C., Irlenbusch, B., 2003. An experimental study on tournament design. *Labour Economics* 10, 443–464.
- III. Labor supply
 - i. Camerer, C., Babcock, L., Loewenstein, G., Thaler, R., 1997. Labor Supply of New York City Cabdrivers: One Day at a Time, *The Quarterly Journal of Economics* (1997): 407-441.
 - ii. Fehr, E., Götte, L., 2005. Do Workers Work More if Wages Are High? Evidence from a Randomized Field Experiment. IEW Working Paper No. 125 (forthcoming in *American Economic Review*)
 - iii. Götte, L., Huffman, D., 2006. Incentives and the Allocation of Effort Over Time: The Joint Role of Affective and Cognitive Decision Making. IZA Discussion Paper No. 2400.
- IV. Market behavior
 - a. Monopsony and minimum wages
 - i. Card, David and Krueger, Alan B. 1994. Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania. *The American Economic Review*, Vol. 84, no. 4, 772-793.
 - ii. Falk, A., Fehr, E., Zehnder, C., 2006. Fairness Perceptions and Reservation Wages – The Behavioral Effects of Minimum Wage Laws. *Quarterly Journal of Economics* 121, 1347-1381.

- b. Fairness, efficiency wages and wage rigidities
 - i. Fehr, E., Kirchsteiger, G., Riedl, A., 1993. Does fairness prevent market clearing? An experimental investigation. *Quarterly Journal of Economics* 58, 437– 460.
 - ii. Fehr, E. and Falk, A. 1999. Wage Rigidity in a Competitive Incomplete Contract Market. *Journal of Political Economy* 10. 106-134.
- c. Incomplete contracts, fairness and the functioning of markets
 - i. Brown, M., Falk, A., Fehr, E. 2004 Relational Contracts and the Nature of Market Interactions”, *Econometrica* 72, 747-781
 - ii. Kirchsteiger, G., Niederle, M., Potters, J., 2005. Endogenizing Market Institutions: An Experimental Approach. *European Economic Review* 49, 1827-1853.
 - iii. Brown, M., Falk, A., Fehr, E., 2003. Competition and Implicit Contracts. Working paper, Institute for Empirical Research in Economics, University of Zurich.