PhD Course 2022-2023

Commitment, Nudges and Incentives

Syllabus

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Course's objective

The general idea of the lecture is to spell out what economists usually mean by incentives and to connect it with insights from behavioral economics. The aim is to give students a better understanding about what incentives are and how incentives can shape behavior. The lecture will present theoretical arguments as well as experimental results. I will first distinguish incentives in markets from incentives to do certain sort of things in organizations. Binding incentives in markets play essentially the role of a coordination device, whereas incentives in organizations are key ingredients of contractual arrangements. Contractual arrangements have been studied extensively in the the economic theory of contracts and I will devote a special attention to moral hazard (e.g. when someone takes more risk when insured) and adverse selection (e.g. when someone can hide information about his or her type) in the principal-agent framework. Experiments will be presented to give insights on theoretical concepts. I will also emphasize why experiments have to be set up in such a way that they are "incentive compatible", which means that they have, following Vernon Smith in particular, to fulfill three criteria: non-satiation (more payoff is always better), saliency (payoff differences must be worth it) and dominance (experimental earnings are attractive enough, that is more than opportunity costs). The next topic will be devoted to non-price incentives. There is a growing literature in economics that focuses on the role of intrinsic motivation instead of any extrinsic motivation such as payoffs and experimental earnings, borrowing insights from cognitive and social psychology. I will present students with key ingredients from psychology and then dwell upon two types of non-price incentives: commitment devices and nudges. The last topic will discuss incentives within the rationality and heuristics framework.

Outline

1. What do we mean by incentives?

2. Who needs incentives?

3. Monetary incentives

3.1 Price incentives in markets and arbitrages

3.2 Contract theory: Moral hazard and adverse selection in principal-agent framework

3.3 Monetary incentives in the lab: Induced values, Money pumps and arbitrages Contracts and effort in the lab

3.4 Incentives in the field

4 Non-price incentives

4.1 Extrinsic and intrinsic motivation: The crowding-out effect

4.2 Compliance without pressure and commitment devices

4.3 Nudges

4.4 Ecological rationality, heuristics and incentives

6 What did we learn?

7 Are incentives always mutually beneficial?

Grading

Students will be graded on the basis of a final short dissertation. The dissertation will be perpared at home. The dissertation will be reviewed based on the quality of the arguments. The topic of the dissertation will be either decided by the professor or jointly with the students.

References for the lecture

Freedman, J. L., & Fraser, S. C. (1966). Compliance without pressure: The foot-in-the-door technique. Journal of Personality and Social Psychology, vol. 4(2): 195-202.

Frey, Bruno S., and Felix Oberholzer-Gee. (1997) “The Cost of Price Incentives: An Empirical Analysis of Motivation Crowding-Out.” The American Economic Review, vol. 87(4): 746–755.

Grenier, J.Y « Faut-il rétablir l'esclavage en France ? Droit naturel, économie politique et esclavage au XVIIIe siècle » Revue d’histoire moderne & contemporaine 2010/2 (n° 57-2)

Jacquemet N., Luchini S., Rosaz J., Shogren J.F. (2019) « Truth-Telling under Oath.' » Management Science, 65(1): 426-438.

Laffont and Martimort (2002). The Theory of Incentives. Princeton University Press.

Jason F. Shogren (2006) "A Rule of One", American Journal of Agricultural Economics, vol. 88 (5): 1147–1159.

Smith, V. (1976) "Experimental Economics: Induced Value Theory", American Economic Review, vol. 66(2): 274-79.

Sugden, R. (2018) "Awards, incentives and mutual benefit", International Review of Economics.

Thaler, Richard H. and Sunstein, Cass R. and Balz, John P., Choice Architecture (December 10, 2014). The Behavioral Foundations of Public Policy, Ch. 25, Eldar Shafir, ed. (2012).. Available at SSRN: https://ssrn.com/abstract=2536504.