

# Psychology and Economics Field Exam

August 2023

The questions on the exam are all short questions with about equal weight. You will be graded on the quality of your explanation. Make as convincing of a case as possible—whether that involves plain English or brief model sketches. Don't stress too much if you do not get all parts of all problems.

**Question 1** Consider a situation where individuals must complete a task by a certain deadline. It could be a task whose completion is immediately costly (e.g., referee report) or a task whose completion is immediately pleasurable (e.g., watching a movie). The benefits and the costs may vary over time. Discuss when present focus (i.e., quasi-hyperbolic discounting) leads people to complete the task later, and when present focus leads people to complete the task sooner. To simplify, assume for this question that individuals are fully naive about their present focus.

**Question 2** Return to the setup above, but consider now individuals who are fully sophisticated about their present focus. Will the sophisticated individuals always complete the task earlier than the naive individuals? Or are there some conditions under which sophisticated individuals complete the task later than naive ones? Please carefully justify your answer.

**Question 3** Is playing lotto games, like Powerball or Megamillions, consistent with expected utility preferences? Please explain why or why not. If not, please suggest an alternative model that could be more consistent with this behavior.

**Question 4** Loss aversion and reference-dependent preferences are widely applied in a variety of contexts. But what actually constitutes a reference point? The literature has advanced a number of different candidates. Please discuss at least two. For each one, please suggest an economic context where you think it is plausible, and please suggest some evidence for (or against) this reference point candidate.

**Question 5**

Suppose everyone in the world had time inconsistent preferences, and was fully aware of their time inconsistency. Would everyone in the world then constantly be taking out commitment devices? Please provide a careful, theory-grounded discussion of why or why not.

**Question 6**

There is growing evidence that people seem to be partially inattentive to sales taxes. That is, a 10% sales tax decreases demand by less than a 10% price hike. Does such inattention increase or decrease the deadweight loss from taxation? Please discuss with theoretical rigor and nuance.

**Question 7** Ironing is the tendency for people to respond to average prices or taxes instead of marginal taxes or prices. Please describe a concrete economic setting where ironing could have important implications for people's decisions, welfare, and/or policy and program design. Please also describe what kinds of empirical strategies could be used to identify ironing in this setting.



**Question 8** Statement: “The main contribution of behavioral economics to political economy is how social preferences explain political actions, such as turn-out, protests, or vote-buying.” Explain whether you agree or not, discussing at least two papers. What kind of social preferences appear to matter? Mention a contribution in behavioral political economy unrelated to social preferences.

### Question 9

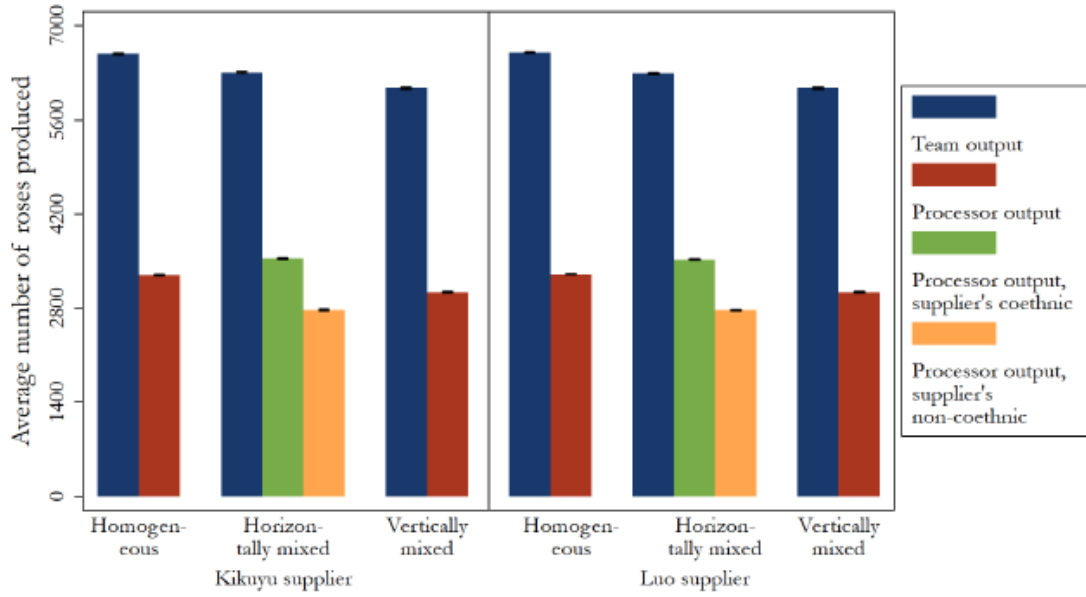
Column 3 in this table from Goldschmidt and Schmieder QJE shows that the average level of pay in a firm (estimated with an AKM model) predicts positively the probability of outsourcing of low-pay workers, such as cafeteria workers and janitors. Is there a plausible behavioral explanation? Is there a plausible standard explanation?

Table III: The Effect of Proxies for Wage Premia on the Probability of Outsourcing

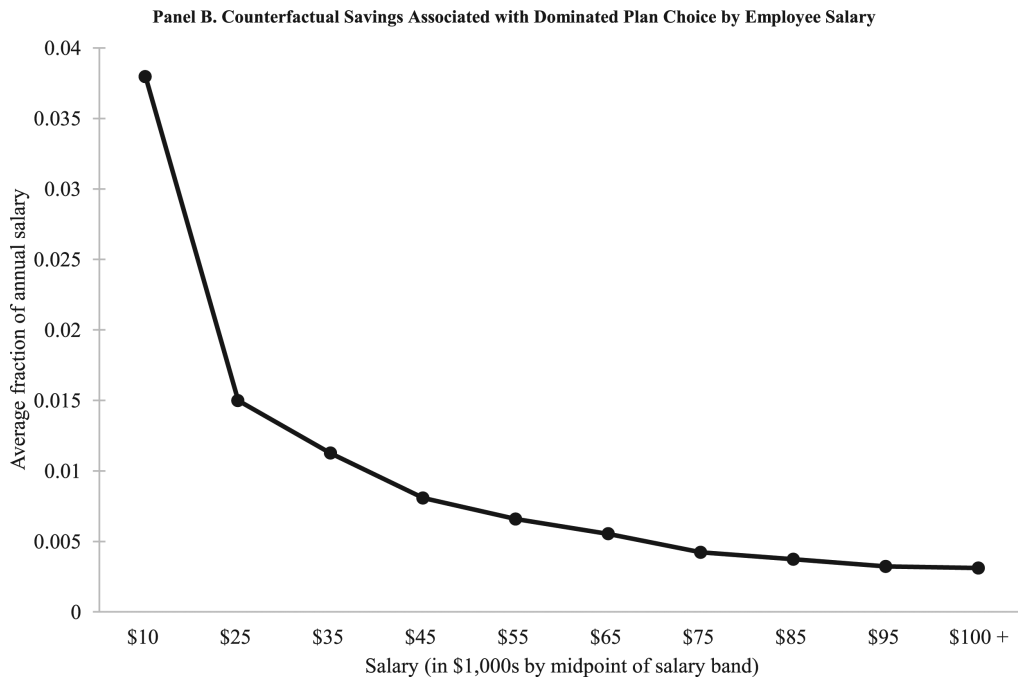
	All Establishments				Establishment Panel Sample	
	(1)	(2)	(3)	(4)	(5)	(6)
Log Estab Size	0.0084*** (0.00016)					
Log Avg Estab Wage		0.00044 (0.00032)				
AKM Effect			0.0046*** (0.00057)			
Wage Premium to FSCL workers over BSF firms				0.0015*** (0.00026)		
Collective Agreement					0.0091*** (0.0013)	
Pay Wages Above Standard						0.0029** (0.0014)
Observations	2086507	2086505	1892408	1769077	68577	68595
Mean of Dep Var	.012	.012	.011	.014	.02	.02
Mean of Indep Var	4.788	4.285	.003	1.162	.81	.34

**Question 10** Consider evidence as in Breza, Kaur, and Shamdasani (QJE) that when employers pay unfair wages – e.g., wages that differ across workers with no obvious productivity differences – workers put in less effort at work. Write down a simple utility-maximizing model for workers effort that would yield such a prediction, and discuss features of this model and whether they fit other experimental evidence (or not). Are there other models that would also yield this finding?

**Question 11** Explain the findings from Hjort (QJE) and outline a simple model of altruism that can explain some of these findings.

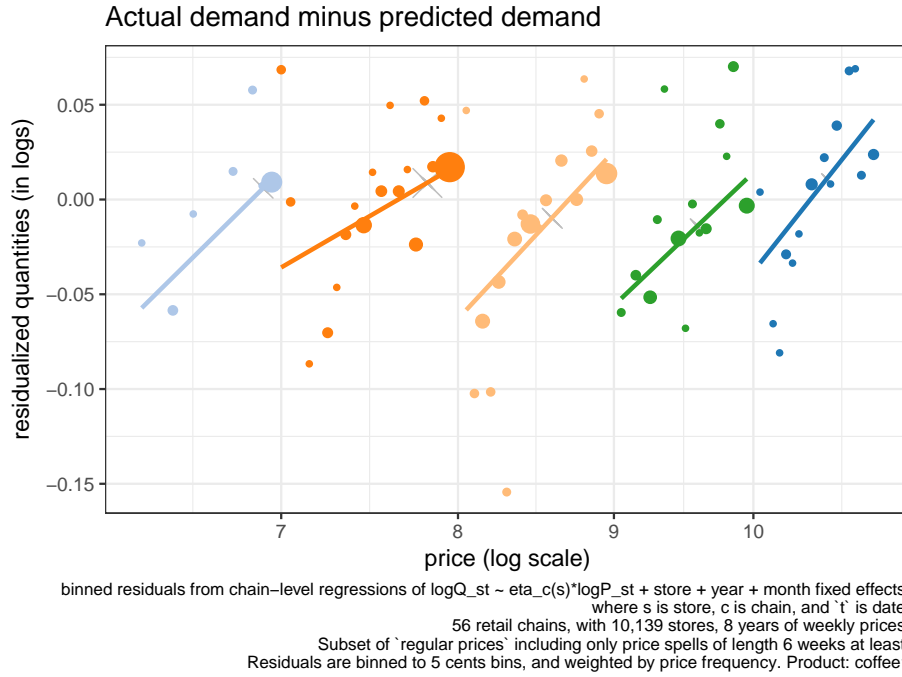


## Question 12



Comment the finding above from Bhargava, Loewenstein and Sydnor (QJE). Discuss this: “Behavioral biases can explain the exacerbation of inequalities”. Is there more evidence in this direction? Evidence against?

### Question 13



Comment the above finding from Strulov-Shlain (RES) and outline a simple model of the findings. What are the behavioral IO implications in terms of firm pricing?