SS 211C – ADVANCED ECONOMIC THEORY

SPRING 2005

LEEAT YARIV

CLASS MEETINGS

We will meet on Thursdays, 1PM – 4PM, in 315 Baxter Hall.

PREREQUISITES

SS201A-C. Please come and talk with me if you have not taken the 201 sequence and are interested in taking the class.

REQUIREMENTS

Formal requirements will include several problem sets and a final exam.

CONTACTING ME

Office: 312 Baxter Hall.
Feel free to e-mail me at lyariv@econ.ucla.edu to schedule a time to talk about class material or about your research interests.

COURSE WEBSITE

The syllabus, problem sets, and solutions will be posted on the class website:
http://www.econ.ucla.edu/lyariv/SS211C.htm
OUTLINE

In this class we will be covering some topics concerning beliefs – what they are, how they are formed, their theoretical significance, and the experimental tests of the prevalent models we will be exploring. We will also touch on some applications to political economy and financial investments.

0. Introduction: what are beliefs, distinction between beliefs concerning states of the world, other players’ behavior, and the players themselves.

1. Beliefs about states: subjective probabilities and desire for flexibility.

2. Beliefs about players: iterated dominance, cognition, and some experimental observations.

3. Applications to strategic voting and some experimental observations.

4. Forming beliefs in static settings: games with communication and their application to strategic voting models.

5. Forming beliefs in dynamic settings:
   a. Axiomatic foundations for discounted utility representation and some empirical observations.
   c. Foundations for alternative models: axiomatic and evolutionary.
   d. Welfare considerations in dynamic settings – which beliefs should the policy maker take into account?
   e. Social effects on dynamic belief formation: cascades, herding, and conformity.

6. Are beliefs really relevant? Reinforcement learning and case-based decision theory.

TEXTBOOKS

Most of the topics covered in this class could be read directly in the published paper version. However, the following books may become handy throughout the class (as well as in your career as an empirically conscious theorist). They are available for you at the book-store.


READING LIST

1. Beliefs About States

Subjective Probabilities


Subjective States and Desire for Flexibility


2. Beliefs about players: iterated dominance, cognition, and some experimental observations


* Costa-Gomes, M., Crawford, V. P., and Broseta, B. [2001], “Cognition and Behavior in Normal-Form Games: An Experimental Study,” *Econometrica*, Vol. 69, pp. 1193-1235 (Crawford’s website).


3. Applications to strategic voting and some experimental observations


4. Forming beliefs in static games

Games with Communication


Applications to Voting


5. Forming beliefs in dynamic games

a. Axiomatic foundations for discounted utility representation and some empirical observations


b. Alternative models

Habit Formation


Hyperbolic Discounting


Belief-dependent utilities: Cognitive Dissonance and Confirmatory Bias


c. Foundations for alternative models


d. Persistence of Alternative Models under Market and Evolutionary Pressures


e. Welfare considerations in dynamic settings


f. Social effects on dynamic belief formation: cascades, herding, and conformity.


6. Are beliefs really relevant?

Reinforcement Learning


**Case-Based Decision Theory**
