

Applications of Choice Theory

Memorial University of Newfoundland
ECON 3670
Applications of Choice Theory
Fall 2020

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Contact hours: MON & WED 10:30 – 11:45 (and asynchronously) through Brightspace

Classroom G. A. Hickman Bldg 3023

Office hours: TUE&THU 10:30 to 12:30, or by appointment

Calendar Description

Applications of Choice Theory examines microeconomic choices made outside perfectly competitive markets. Its topics include areas to which choice theory has been applied, for example, the economics of labour, marriage, sport, entertainment, crime, gambling, and the consumption of addictive goods.

Prerequisite: ECON 1010 (or ECON2010)

Textbooks

The primary text for the course is

Economics Uncut: A Complete Guide to Life, Death and Misadventure. Edited by Simon W. Bowmaker, Edward Elgar, Cheltenham, 2006.

and it is strongly recommended that you acquire it.

Other texts we will be referring to:

Freakonomics A Rogue Economist Explores the Hidden Side of Everything. by Steven D. Levitt and Stephen J Dubner, William Morrow & Company, 2005

Sex, Drugs & Economics - An Unconventional Intro to Economics. 1st Edition. Diane Coyle. Thomson South-western, 2004.

The Economics of Sport and Recreation by Chris Gratton and Peter Taylor. E&FN Spon, New York, 2000

For help with some of the core microeconomic models and concepts used, you should consult any good Introductory or Intermediate Microeconomics book of your choice.

Applications of Choice Theory

Course description

Often non-economists associate Economics with money, stock markets, inflation rates, exchange rates, and other notions that they see relatively far removed from their everyday lives. However, Economics is about people and the many kinds of choices they make. This course showcases the claims of economic analysts to rationally and formally explain all types of choices made by individuals. Some of the topics covered apply economics in somewhat unusual and often provocative ways, hoping to spark the students' interest and curiosity by challenging their so-called "conventional wisdom". However, all of them can be used to invoke the models offered by economic theory to deal with situations that depart from the perfectly competitive environment covered by the Introductory Economics courses (the only prerequisite). The course includes several subthemes including aspects of the economics of leisure and labour supply, the economics of professional organised sport; the economics of marriage; the economics of crime and the regulation of illegal drugs and the consumption of addictive goods; and the economics of the entertainment industry.

Many of the topics covered follow the insights of Gary Becker, who pioneered research from an economist perspective on everyday life decision-making processes of households that were traditionally considered beyond the purview of economics. Simply put, Becker argued that the economist's marginal-cost versus marginal-benefit framework can also offer useful explanations for the type of behaviours studied in this course and his influential works, even if some of his theories have now been contested by other economists, will provide a starting point for the applications of rational choice theory in a variety of contexts.

Assessment:

	Dates	Weight
Two midterm tests	MON Wk 7 & WED Wk 10	40% overall (30% for best one) NB: Midterms will not be rescheduled, their weight will be reallocated to the final exam ¹
Essay	Due on Monday Wk 12	25% NB: Late submissions of essays will be penalized at the rate of 5 marks per day.
Final exam	TBA	35%

Note: this year, due to the restrictions imposed by the measures to combat COVID19, the specific format of the tests and exams will be announced at a later date. It might involve remote examination tools, including oral online testing

¹ See <http://www.mun.ca/regoff/calendar/sectionNo=REGS-0601#REGS-1949> for details on how to report and document absences from a test.

Applications of Choice Theory

Department of Economics Regulations:

- Students need to follow the MUN calendar for drop dates and deadlines
- It is not possible to drop a course once a student even sees a final exam or writes the final
- The Economics Department does NOT have Supplementary Exams

Other regulations

Memorial University is committed to facilitating and promoting an accessible, inclusive, and mutually respectful learning environment. Students requiring special accommodation are asked to communicate firstly with the Glenn Roy Blundon Centre (www.mun.ca/blundon) at the earliest opportunity. University policies and procedures pertaining to accommodations for students with disabilities can be found at www.mun.ca/policy/site/policy.php?id=239

Academic Honesty and Plagiarism

Plagiarism involves presenting the ideas or works of another as one's own. This applies to all material (essays, reports, term projects, seminar presentations, statistical data, computer programs, research results, theses, etc...) Properly acknowledging the use of sources is a required part of scholarship and failing to do so is contrary to accepted norms of academic behaviour. Information on acceptable writing practices is available through the Writing Centre at www.mun.ca/writingcentre"

See also Section 6.12.4 of the University Calendar on Academic Misconduct:

<http://www.mun.ca/regoff/calendar/sectionNo=REGS-0748>

Conduct of Examinations

Memorial University provides formal instructions for examinations (Calendar 6.8). For all examinations, students must be registered in the course; are permitted only to bring pens, pencils and, only if permitted, other items for the examination; are not allowed to use communication devices; and may not speak to each other unless part of the examination process. **In this course, a student leaving the examination room will not be permitted to return.** Please consult before the test with the instructor if you require accommodation regarding this norm. A list of instructions is available online at https://www.mun.ca/regoff/grades_exams/

Note: this year, due to the restrictions imposed by the measures to combat COVID19, the specific format of the tests and exams will be announced at a later date. It might involve remote examination tools, including oral online testing

Important Dates to Remember

A list of key dates to remember is available here:

<https://www.mun.ca/regoff/calendar/sectionNo=GENINFO-0086>

Applications of Choice Theory

Preliminary Course Outline

NB: This is a tentative schedule of topics and readings only. Additional suggested readings may be suggested for each topic in the course of the term. However, the readings marked with * are essential for your preparation! The other ones are there to guide your additional reading and essay preparation. You should strive to have read all the required articles by the end of the first week in each section. For example, you should have read at least Scitovsky (1972) and (1981) by the end of Week 0.

Week 0-1

Introduction

* Scitovsky, Tibor (1972). What's wrong with the arts is what's wrong with society, *American Economic Review*, Vol. 62(2), pages 62-69.

* Scitovsky, Tibor (1981). The desire for excitement in modern society *Kyklos*, vol. 34(1), pages 3-13.

Bianchi, Marina A. (2003). A questioning economist: Tibor Scitovsky's attempt to bring joy into economics, *Journal of Economic Psychology*, Volume 24, Issue 3, Pages 391-407

Scitovsky, Tibor (1976). *The Joyless Economy: An inquiry into human satisfaction and consumer dissatisfaction*, Ch. 5.

Week 2-5

I. Sins and Needles

- Economics of Drug Addiction
- Economics of Drug Trafficking: the *War on Drugs*
- Economics of Drug Prohibition

* Bowmaker (2006), Part I

* Coyle (2004). Ch. 2. *Illegal Drugs: It's the Economy, Man*

And

* Ch. 3. *Risky Business: Why Most Teenagers Don't Act Like Economists.*

Reuter, Peter and Mark A. R. Kleiman (1986). Risk and prices: An economic analysis of drug enforcement. *Crime and Justice: An Annual Review of Research* 7:289-340.

Applications of Choice Theory

* *Why do drug dealers still live with their moms?* Ch. 3 in Levitt and Dubner (2005)

Schelling, Thomas. C. (1996). Coping rationally with lapses from rationality *Eastern Economic Journal*, 22(3), 251-269

Becker, Gary S. & Murphy, Kevin M. (1988). A theory of rational addiction, *Journal of Political Economy*, University of Chicago Press, 96(4), 675-700.

Miron, Jeffrey A. (2001). The economics of drug prohibition and drug legalization *Social Research*. Fall.

Miron, Jeffrey A. (2004). *Drug War Crimes: Consequences of Prohibition*. Independent Institute. Oakland, CA.

* Friedman, Milton (1988). There's no justice in the war on drugs *The New York Times*, Sunday 11 January 1998 (<http://zpub.com/un/drug-mf.html>)

Week 6-10

II. Guns and Roses

- Economics of Crime
- Economics of Gun control
- Economics of Dating Marriage and Divorce

* Bowmaker (2006), Part II

* Scitovsky, Tibor (1981). The desire for excitement in modern society *Kyklos*, 34(1), 3-13.

* *Where have all the criminals gone?* Ch. 4 in Levitt and Dubner (2005)

* Stonebraker, Robert J. Crime, in *The Joy of Economics: Making Sense out of Life (Section IIC)* (available online at <http://web.archive.org/web/20161119063853/http://faculty.winthrop.edu:80/stonebrakerr/book/contents.htm>)

Becker, Gary S. (1968). Crime and punishment: An economic approach. *Journal of Political Economy*, 76, 169-217.

Becker, Gary S. (1985). The economic approach to fighting crime. *Business Week* (June 10th), p. 16. (<http://www.nber.org/chapters/c3625.pdf>)

Becker, Gary S.; Murphy, Kevin M. and Grossman, Michael (2004). The Economic Theory of Illegal Goods: The Case of Drugs; NBER working paper series working paper no. 10976; National Bureau of Economic Research. (<http://www.nber.org/papers/w10976.pdf>)

Applications of Choice Theory

Levitt, Steven D. (2004). Understanding Why Crime Fell in the 1990's, *Journal of Economic Perspectives*, 18 (1), 163-190.

Freeman, Richard (1996). Why do so many young American men commit crimes and what might we do about it? *The Journal of Economic Perspectives*, 10, 25-42.

* Schelling, Thomas (1968). Economics and criminal enterprise. In T. Schelling, *Choices and Consequences*, 158-178.
(http://www.nationalaffairs.com/doclib/20080516_196700705economicsandcriminalenterprisethomascschelling.pdf)

* Stonebraker, Robert J. Love and Marriage, in *The Joy of Economics: Making Sense out of Life (Section IIA)* (<http://web.archive.org/web/20161119063853/http://faculty.winthrop.edu:80/stonebrakerr/book/contents.htm>)

* Becker, Gary S. (1973). A Theory of marriage: Part I *Journal of Political Economy*, University of Chicago Press, 81(4), 813-46.

Bergstrom, Theodore C. and Bagnoli, Philip (1993). Courtship as a waiting game, *Journal of Political Economy*, 101(1), 185-203.

Edlund, Lena and Evelyn Korn (2002). A Theory of prostitution, *Journal of Political Economy*, 110, 181-214.

Edlund, Lena (2006), 'Marriage: past, present, future?', *CESifo Economic Studies* 52(4), 621-639.

Week 11-12

IV: Fun and Games

- Economics of Sport
- Economics of Rock 'n' Roll

* Bowmaker (2006), Part IV

* Leeds, Michael & Peter Von Allmen (2001). Ch. 8 *An introduction to labour markets in professional sports*. In *The Economics of Sports* (4th ed.), Addison Wesley, 2001.

* Gratton, Chris and Peter Taylor (2000). Ch. 1 *Sports and Economics*, Ch.2 *The economic importance of sport*, Ch. 4 *The demand for sport*, and Ch. 11 *Professional team sports*

* Rosen, Sherwin (1981). The Economics of superstars, *American Economic Review*, American Economic Association, 71(5), 845-58.

Applications of Choice Theory

Adler, Moshe (1985). Stardom and talent, *American Economic Review*, American Economic Association, 75(1), 208-12.

*Rosen, S. & Sanderson, A. (2001), 'Labour Markets in Professional Sports', *The Economic Journal* 111(469), 47-68.

*Rottenberg, S. (1956), 'The Baseball Players' Labor Market', *Journal of Political Economy* 64.

Jones, J. C. H. (1969), 'The Economics of the National Hockey League', *Canadian Journal of Economics* 2(1), 1-20.

*Sloane, P. (2006), 'Rottenberg and the Economics of Sport after 50 years: An Evaluation' (0608), Technical report, International Association of Sports Economists; North American Association of Sports Economists.

Fort, R. (2005) The Golden Anniversary of "The Baseball Players' Labor Market" *Journal of Sports Economics*, 6, 347-358

Borghans, L. & Groot, L. (1998), 'Superstardom and Monopolistic Power: Why Media Stars Earn More Than Their Marginal Contribution to Welfare', *Journal of Institutional and Theoretical Economics* 154(3), 546-557.

Hamlen, W. Superstardom in Popular Music: Empirical Evidence *Review of Economics and Statistics*, 1991, 73, 729-733