The Economics of Behavior and Misbehavior

STUDY GUIDE
<table>
<thead>
<tr>
<th>Course Title, and Prerequisites</th>
<th>Course Title: The Economics of Behavior and Misbehavior</th>
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<tbody>
<tr>
<td>Prerequisites:</td>
<td><em>Ideally:</em></td>
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<tr>
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<td>Principles of Microeconomics and Introductory Statistics or equivalent</td>
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<td>Some basic familiarity with microcomputers and the Internet is assumed.</td>
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**Course Description**

This course shows students how economics can be used as an aid in understanding almost every aspect of human behavior: drug addiction, drug policy, crime, marriage, divorce, pornography, prostitution, suicide, religion, assisted reproduction, abortion, sport, gambling and rock ‘n’ roll. The conventional wisdom is that these behaviors should only be studied by sociologists and psychologists. With special attention to the evolution of economic ideas, as well as state-of-the-art economic theory and empirical analysis, the value of economics in shedding analytical light on these behaviors will be demonstrated. Further, this course will provide you with sufficient knowledge to decipher between the economic facts and economic myths that pervade popular news media, particularly on topics such as the legalization of drugs and the advantages and disadvantages of capital punishment.

**Course Materials**

- Course Study Guide and PowerPoint Lecture Slides
## Course Calendar

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<tr>
<th>Session</th>
<th>Topics</th>
<th>Readings</th>
<th>Assignments</th>
<th>Examinations</th>
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<tr>
<td>1</td>
<td>Introduction</td>
<td>• Bowmaker, <em>Economics Uncut</em>, ‘Introduction’, ‘Bend it Like Becker’ and Chapter 1</td>
<td>• PowerPoint Lecture #1 and #2</td>
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<td>The Becker Approach to Human Behavior</td>
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<td>Economics of Drug Addiction</td>
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<td>• Theories of Addictive Behavior</td>
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<td>• Price Elasticity of Demand for Illicit Drugs</td>
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<td>• Welfare Economics of Drug Prohibition</td>
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<td>2</td>
<td>Economics of Drug Policy</td>
<td>• Bowmaker, <em>Economics Uncut</em>, Chapter 2 and 3</td>
<td>• View PowerPoint Lecture #3 and #4</td>
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<td>• Economics of Drug Prohibition</td>
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<td>• Economics of Drug Liberalization</td>
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<td>3</td>
<td>Economics of Crime</td>
<td>• Bowmaker, <em>Economics Uncut</em>, Chapter 4</td>
<td>• View PowerPoint Lecture #5</td>
<td>Group presentation</td>
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<td>• Supply of Criminal Offenses and Demand for Crime Prevention</td>
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<td>• Allocation of Criminal Justice Resources</td>
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<td>• The U.S.’s Fall in Crime in the 1990s</td>
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| 4       | Economics of Marriage and Divorce  
- Marriage vs. Cohabitation  
- Economic Gains from Marriage  
- Transitions into and out of Marriage  
• View PowerPoint Lecture #6 | Group presentation |  |
| 5       | Economics of Pornography  
- Porn as an Industry  
- Paretian Liberals and Porn  
- Demand for Porn  
- Regulation of Porn  
- The Internet and Porn  
- Porn as an 'Economic Good' | • Bowmaker, *Economics Uncut*, Chapter 6  
• View PowerPoint Lecture #7 |  | Mid-Session test |
| 6       | Economics of Prostitution  
- Economic theories of prostitution  
- Policy approaches  
Economics of Suicide  
- Economic models of suicide  
- Game theory and suicide  
Economics of Religion  
- Religious markets  
- Regulated markets | • Bowmaker, *Economics Uncut*, Chapter 7, 8, and 9  
• View PowerPoint Lecture #8, #9, and #10 |  |  |
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| 7       | Economics of Assisted Reproduction  
       - Demand for Children  
       - Development of Markets in AR  
       - The Market for Eggs, Sperm, and Surrogacy |  
       Economics of Abortion  
       - Demand for Abortion  
       - Supply of Abortion  
       - Abortion Availability and Teenage Pregnancy Rates, Propensity for Pre-Marital Sexual Relations, and Fluctuations in Crime Rates |  
       Bowmaker, *Economics Uncut*, Chapter 10 and 11 |  
       View PowerPoint Lecture #11 and #12 | Group presentation |
| 8       | Economics of Sport  
       - Economic Objectives of Team and League Owners  
       - Sports League’s Role as a Cartel  
       - Salary Caps  
       - Collective Selling of Broadcasting Rights |  
       Economics of Gambling  
       - Reasons Why People Gamble  
       - Legalization of Gambling  
       - Regulation and Deregulation of Gambling  
       - The Use of State and Government Revenues from Gambling |  
       Bowmaker, *Economics Uncut*, Chapter 12 and 13 |  
       View PowerPoint Lecture #13 and #14 | Group presentation |
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| 9       | Economics of Rock ‘n’ Roll  
- Relationship Between ‘Majors’ and ‘Indies’  
- Economics of Recording Contracts  
- ‘Superstar Phenomenon’ in Music  
- Economics of Legal and Illegal Copying of Music | Bowmaker, *Economics Uncut*, Chapter 14  
View PowerPoint Lecture #15 | Group presentation |  |
| 10      |        |          |             | Final exam   |

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Session 1 Learning Objectives

**Topic 1**  
*Introduction to the Becker Approach to Human Behavior*

**Objectives for Topic 1**

(i) Introduce the ways in which Gary Becker has pioneered the economic approach to human behavior.

(ii) Introduce some competing schools of thoughts, including the behavioral economists.

**Topic 2**  
*Economics of Drug Addiction*

**Objectives for Topic 2**

(i) Understand how the tools of economics can be used in the study of drug addiction.

(ii) Provide a brief overview of the nature and extent of global illicit drug use.

(iii) Examine four theories of addictive behavior (relative theory of addiction, melioration theory of addiction, theory of rational addiction, and theory of hyperbolic discounting).

(iv) Examine both the theoretical and empirical work by economists relating to the price elasticity of demand for illicit drugs.

(v) Introduce a brief analysis of the social costs of illicit drug use and show how a welfare economics framework can be used to provide a rationale for government intervention in the illicit drugs market.
### Session 2 Learning Objectives

<table>
<thead>
<tr>
<th>Topic 3</th>
<th>Economics of Drug Policy</th>
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<tr>
<td><strong>Objectives for Topic 3</strong></td>
<td><strong>Economics of Drug Prohibition</strong></td>
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<tr>
<td></td>
<td>(i) Understand the theory behind the effect of prohibition on the price and quantity of drugs consumed using a demand and supply framework.</td>
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<td>(ii) Examine the empirical evidence relating to the price and quantity of drugs under prohibition.</td>
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<td>(iii) Examine the theory and empirical evidence relating to the effect of prohibition of crime, as well as the effect of drug use on crime.</td>
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<td>(iv) Learn how prohibition has an impact upon drug quality.</td>
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<td>(v) Re-investigate the issue of the addictive properties of drugs.</td>
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<td>(v) Examine how drug use impacts upon labor market outcomes, accidents, and the unborn fetus.</td>
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<td><strong>Economics of Drug Liberalization</strong></td>
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<td>(i) Provide an overview of the differences between drug policy in the U.S. and Europe.</td>
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<td>(ii) Examine how a government monopoly can be established to replace prohibition and its implications.</td>
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<td>(iii) Understand what is meant by a government regulation approach to drug use.</td>
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<td>(iv) Understand what is meant by the sin-tax approach to drug use. In particular, analyze in detail both the advantages and disadvantages of this alternative to prohibition.</td>
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<td>(v) Understand how a free market for drugs would operate, with special attention to the possible effects on drug consumption levels.</td>
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### Session 3 Learning Objectives

**Topic 4**  
**Economics of Crime**  

**Objectives for Topic 4**  
(i) Provide a historical introduction to the interest of economists in crime.  
(ii) Provide an overview of crime rates across the world.  
(iii) Understand what is meant by the supply of criminal offences.  
(iv) Examine the economics literature relating to the death penalty.  
(v) Analyze how criminal justice resources are allocated, why they are allocated the way they are, and what the consequences are of this allocation process.  
(vi) Examine the possible reasons behind the US’s sharp and unexpected fall in the crime rate in the 1990s.

### Session 4 Learning Objectives

**Topic 5**  
**Economics of Marriage and Divorce**  

**Objectives for Topic 5**  
(i) Provide an overview of trends in marriage and divorce across several industrialized countries.  
(ii) Understand the difference between marriage and cohabitation from an economic perspective.  
(iii) Examine the potential economic gains from marriage.  
(iv) Using a game-theoretic framework, understand how married couples make decisions.  
(v) Using economic models, examine how couples make transitions into and out of marriage.  
(vi) Examine the implications of government policy interventions relating to divorce laws.
### Session 5 Learning Objectives

**Topic 6**  
**Economics of Pornography**

**Objectives for Topic 6**

1. Provide an overview of research outcomes on the effects of pornography (from a negative externality viewpoint).
2. Provide an overview of the nature of pornography as an industry.
3. Examine Amartya Sen's argument about Paretnian liberals as applied to pornography.
4. Examine the nature of the demand for pornography (the role of price, addiction, and variety-seeking).
5. Examine the different approaches to regulation of pornography.
6. Provide analysis of the effect of the Internet on pornography.
7. Provide an examination of porn as an ‘economic good’
Session 6 Learning Objectives

**Topic 7**  Economics of Prostitution

Objectives for Topic 7

(i) Provide an overview of the role played by prostitution within the commercial world, paying close attention to its interactions with other markets, and to the ways in which it is evolving over time.

(ii) Draw some international comparisons of prostitution’s legal status and industry size.

(iii) Examine economic theories of prostitution that help explain the “wage differential puzzle”.

(iv) Examine barriers to entry within prostitution and its market structure.

(v) Examine the role played by asymmetric information in this market.

(vi) Provide an overview of empirical studies on prostitution.

(vi) Examine the advantages and disadvantages of different policy approaches to prostitution (laissez-faire, licensing, and zoning).

**Topic 8**  Economics of Suicide

Objectives for Topic 8

(i) Provide an historical overview of the study of suicide.

(ii) Examine some cross-country comparisons of suicide rates.

(iii) Examine economic models of suicide.

(iv) Examine how game theory can be used to understand suicidal behavior.

(v) Examine the empirical work undertaken by economists on suicide.

(vi) Investigate the potential economic costs of suicide.

(vi) Examine the economics of anti-suicide policy.

**Topic 9**  Economics of Religion

Objectives for Topic 9

(i) Examine the demand for religion, including the relationship between scarcity and the benefits of religion, the determinants of demand, and effect of religious capital.

(ii) Examine how economists deal with the supply of religion, including the concepts of external effects, free-riding, and optimal firm size.

(iii) Examine what is meant by religious risk.

(iv) Examine the workings of religious markets, including religious products and market competition, regulated religion, and competition and doctrine.
Session 7 Learning Objectives

**Topic 10**  
**Economics of Assisted Reproduction**

*Objectives for Topic 10*

(i) Provide an overview of what is meant by assisted reproduction, including some cross-country comparisons.

(ii) Examine what is meant by the ‘demand for children’.

(iii) Explore the development of markets in assisted reproduction and provide an explanation of the size of the market in assisted reproduction.

(iv) Analyze economic issues in three markets that currently exist in assisted reproduction: the market for eggs, sperm and surrogacy (with reference to issues of demand and supply in these markets, the role of incentives, supply price, reservation price, risk and return, property rights and altruism.)

**Topic 11**  
**Economics of Abortion**

*Objectives for Topic 11*

(i) Provide a brief discussion of the procedure of abortion, including some terminology and recent statistics on trends in abortion rates throughout the world.

(ii) Examine the demand for and supply of abortion services.

(iii) Examine how the availability of abortion services and their legality had had implications for other related issues such as teenage pregnancy rates, the propensity for pre-marital sexual relations, and fluctuations in crime rates across time.
Session 8 Learning Objectives

**Topic 12**  
**Economics of Sport**

**Objectives for Topic 12**

(i) Provide an overview of the ‘economics of sport’ and the main differences between U.S. and European economists in their approach to the topic.

(ii) Examine the objectives followed by team and league owners, the nature of product demand and, in particular, whether this is positively related to the uncertainty of outcome.

(iii) Examine the sports league’s role as a cartel, including the need to impose strong anti-competitive controls to maintain competitive balance.

(iv) Examine some controversial economic issues in sport, including salary caps and collective selling of broadcasting rights.

**Topic 13**  
**Economics of Gambling**

**Objectives for Topic 13**

(i) Provide a brief summary of the scope and composition of gambling across the world.

(ii) Examine the reasons for why people gamble.

(iii) Examine the economic reasons why states and governments may opt to legalize different forms of gambling.

(iii) Examine some contemporary issues involved in regulation and deregulation of gambling, including the social benefits and costs of gambling, the use of state and government revenues from gambling for particular purposes and the threat to government tax revenues and government regulation posed by the growth of Internet gambling.

Session 9 Learning Objectives

**Topic 14**  
**Economics of Rock ‘n’ Roll**

**Objectives for Topic 14**

(i) Provide a brief overview of the history of the music industry.

(ii) Examine the size and scope of today’s global music market.

(iii) Examine the relationship between the major record companies and the independents.

(iv) Examine the economics of recording contracts and how technological change is affecting the record label/artist relationship.

(v) Analyze the ‘superstar phenomenon’ in the music industry

(vi) Examine the economics of legal and illegal copying of music.

Session 10 is the Final Exam