

This thesis demonstrates the effectiveness of novel, psychology-influenced, models of economics on traditional economic structures through the lab, field and theory.

Chapter 2 observes how subjects are able to solve the computationally difficult buffer stock savings model first for monetary earnings and then in terms of cola when thirsty. The first experiments suggested that subjects saved too little initially, but learned to save optimally within four repeated lifecycles, or 1-2 lifecycles when examining the behavior of others. The second experiment, the first of its kind to combine savings models with visceral temptation in a laboratory, found evidence that subjects when receiving rewards immediately did worse than with a ten-minute delay, consistent with the quasi-hyperbolic discounting models and several other studies.

Chapter 3 examines the decision of film distributors to deliberately withhold from critics low-quality movies. In equilibrium, through iterative reasoning, moviegoers should correctly infer quality and a cold opening should not be profitable. Therefore, cold openings provide a natural field setting to test models of limited strategic thinking as well as the rational-actor, quantal response equilibrium model. In a data set of 856 widely released movies, cold opening produces a significant, 14-17%, increase in domestic box office revenue. Parameter estimates of moviegoers behavior fit those observed in experiments. However, distributor parameters imply they overestimate their consumers and could earn more by increasing the frequency of cold openings.

Chapter 4 examines two types of "personal rules" through a model where immediacy preference changes with decisions. That is, choosing (or not choosing) a tempting alternative makes it more (less) tempting in the future. "Descriptive" rules are the backward-induction solution to the problem. With finite periods, agents may avoid the tempting alternative if their choice is going to be repeated, exhibiting the precedent effect, but they also may exhibit procrastination knowing that in the future, they will avoid temptation anyway. "Prescriptive" rules, involving an agent changing his belief structure in order to bring about a more preferred outcome, can eliminate this procrastination effect, but lose their power under an infinite time horizon.