

Course title	<i>Behavioral Economics in the Regulation of the Financial Sector</i>
Duration	2 hours
Dates& Time	July 28, 9:00-11:10
Instructors	Dr. Deni Mantzari, Reading School of Law
Course Description	
<p>The course will explore how Behavioral Economics (BE) is being used in the regulation of the financial sector and in understanding consumer behavior in financial markets, using the UK's Financial Conduct Authority (FCA) as its focus. BE is a relatively new field of research that shows-through experimental and statistical observation-that individuals systematically and predictably deviate from rational decision-making. These systematic errors in judgment and decision-making, referred to as cognitive biases, expose and explain some of the limits of conventional policy-making predicated upon assumptions of neoclassical rationality. However, while behaviour has long been the subject of laboratory tests, what remains relatively underexplored is how actors in the regulatory space translate and transfer these findings into specific policy contexts. Against this background, the UK's newly established Financial Conduct Authority serves as a natural experiment, as its policy approach for the first time places considerable emphasis on behavioral economics in order to further an additional, novel statutory objective, that of promoting effective competition. In the FCA's Approach to Regulation document (2014) it is explicitly stated that the rule-making and policy activity of this new consumer body will take into account a number of cognitive biases consumers face in the complex world of financial markets when promoting effective competition (e.g. loss aversion, status quo bias, hyperbolic discounting to name but a few).</p>	
Course Outline	
<p>The course will first examine how behavioural biases may affect consumer and firm behaviour in financial markets. It will then delve into some of the tools (surveys, experiments) that derive from BE and assess how the latter interact with the more traditional tools deriving from neoclassical economics used in competition law analysis (econometric analysis, surveys, experiments). Finally, the course will look into specific examples of behavioural experiments used to inform policy in financial services markets, including the FCA's market study into General Insurance add-ons (2014) and the on-going retail banking market investigation undertaken by the UK's competition law watchdog, the Competition and Markets Authority (CMA).</p>	
Educational Outcomes	
<ul style="list-style-type: none"> - Define and analyse the relevant tools of behavioural economics (BE) - Identify and critically assess the use of BE in FCA's market study into General Insurance add-ons (2014) and the on-going retail banking market investigation undertaken by the UK's competition law watchdog, the Competition and Markets Authority (CMA) - Evaluate the interaction between neoclassical economics and BE 	

<p>Basic Bibliography</p>	<p>FCA (2013), Applying Behavioural Economics at the Financial Conduct Authority, available at https://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-1.pdf</p> <p>MS Barr (2008), S Mullainathan, E Shafir, 'Behaviourally Informed Financial Services Regulation, available at http://repository.law.umich.edu/cgi/viewcontent.cgi?article=1028&context=other</p> <p>OECD (2014), Regulatory Policy and Behavioral Economics available at: http://www.oecd.org/gov/regulatory-policy-and-behavioural-economics-9789264207851-en.htm</p> <p>Skim through: CCP, Behavioural Economics in Competition and Consumer Policy available at: http://competitionpolicy.ac.uk/documents/8158338/8193541/CCP+economics+book+Final+digital+version+-+colour.pdf/30214557-cace-4b0b-8aac-a801bbde87bc</p> <p>Case Studies</p> <p>FCA (2014), General Insurance add-on: Final Report available at: https://www.fca.org.uk/news/general-insurance-add-ons-market-study</p> <p>CMA (2016), Retail Banking Market Investigation available at: https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk</p>				
<p>Teaching methodology</p>	<table> <tr> <td>Frontal lecture</td> <td>1.30 hours</td> </tr> <tr> <td>Active participation</td> <td>30 mins</td> </tr> </table>	Frontal lecture	1.30 hours	Active participation	30 mins
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<p>Language</p>	<p>English</p>				
<p>Location</p>	<p>EPLO Headquarters, Sounion</p>				
<p>General note</p>	<p>N/A</p>				