

## **ECO 798 - Behavioral Economics and Decision Making**

Fall 2019

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**Class Meetings:** Tuesdays, 5:45-9, DPC 8207.

**Office hours:** One hour prior to class, and by appointment. I will also answer e-mail messages as quickly as possible.

### **Course Goals and Description**

The collaboration between economists, psychologists, and other behavioral scientists has grown by leaps and bounds over the past twenty years. This interaction has created the field of Behavioral Economics, which studies the psychological processes and biases underlying decision making in economics and other connected areas. The purpose of this course is two-fold. First, we will discuss some of the most robust and relevant theoretical and empirical findings in Behavioral Economics. Second, we will examine a variety of applications in economics, business, and policy environments. This approach will allow us to both understand how individuals and organizations make decisions (good and not so good!), and develop methodologies to address the various challenges that these decision makers face.

## **Text and Materials**

The following two books contain the basics of most of the topics we will discuss:

*Thinking, Fast and Slow*, by Daniel Kahneman.

*Judgment in Managerial Decision Making*, by Max Bazerman and Don Moore, 8e. A different edition is OK, as long as you identify how the various chapters map into the relevant topics we cover.

Other really good Behavioral Economics books are:

*Misbehaving*, by Richard Thaler.

*Nudge*, by Richard Thaler and Cass Sunstein, and

*The Undoing Project*, by Michael Lewis.

*The Behavioral Economics Guides* (2014-2019), free to download from [behavioraleconomics.com](http://behavioraleconomics.com), are also great sources of relevant material.

*World Development Report* (2015), "[Mind, Society and Behavior](#)," available as a free download from the World Bank, contains a wonderful collection of behavioral articles applied to economic development.

We will also rely heavily on additional academic and professional articles, all of which I will post on D2L. Finally, I will post lecture slides prior to class on D2L.

## **Grading**

### *Class Participation (25%) - Individual*

We will hold a good portion of the class seminar style, which means we will spend a lot of time discussing posted materials. For a fruitful discussion, I expect all students to keep up with the readings and be prepared to contribute to the exchange of insights and ideas.

### *Paper Presentation (20%) – Group/Individual*

Starting on week three, we will have two group-based student presentations per class. You will work in groups of three and will have 30 minutes to present a paper assigned in advance. Each presentation will consist of (a) a summary of the main issues, the data and methodology (if applicable), and the main findings (~10 mins.), (b) a discussion of the most important implications, possible extensions, and applications to other areas (~10 mins.), and (c) a Q&A session (~ 10 mins.) I will grade your presentation based on your ability to meet

objectives (a) and (b), and conduct a fruitful Q&A segment (if your classmates are not asking questions feel free to turn the tables on them!)

### *Midterm (20%) – Individual*

Our midterm will be a “Nudge-athon” on week 6, where each student will make a very short presentation (5-6 mins.) of an assigned study related to nudging or improving decisions. Students will also be responsible for uploading an executive summary and presentation slides so that everyone in the class can access these materials. I will grade you both on the quality of your materials and the effectiveness of your presentation (you have to be able to clearly convey the main ideas of the paper in the allotted time). Your summary and slides will be due in the Submissions Box prior to class on week 6 in either pdf or Word form.

### *Final Project and Presentation (35%) – Group*

You will -in groups of three once again- work on a final group project (15 or so pages) which will be due (in pdf or MS Word form) in the Submissions Box at the end of the business day on the date we will agree upon at the beginning of the term. You will also present your project on either week 10 or week 11, and will have 25-30 minutes to do so. I am giving you a few options for the final project:

**Option 1 - Business Proposal:** Describe an original business idea that capitalizes on one or more of the behavioral phenomena discussed in the course. Your paper and presentation should clearly outline the proposal and argue why your idea should be effective. You will also provide a brief review of past research relevant to the phenomena surrounding your proposal and cite any research that supports the viability and potential of your proposed venture.

**Option 2 - Study a case of biased business or policy decision-making:** Identify and research an actual unwise business or policy decision or project that was rooted in one of the biased behaviors discussed in this course. Your paper and presentation should describe the business or policy setting in detail, what judgment errors were made, as well as evidence supporting your offered interpretation. You will also summarize past research on the relevant judgmental error and suggest strategies that might have been used to prevent the error, citing appropriate research to support your recommendations.

**Option 3 - Design an Intervention to solve a problem:** Identify a business (organizational/strategic) or policy-relevant issue that you believe needs to be addressed, and convince the reader why this is the case. Then develop a proposed behavioral intervention to deal with the problem, and make a compelling argument for why your proposal should be implemented. The idea is to use the behavioral insights we will study in the course to solve a real world problem. Examples of a problem of interest might be high rates of absenteeism in a specific facility, failure to undergo more routine screening for preventable diseases, excessive utilization of a resource, or customer reluctance to adopt a product or service. You will put together a well thought-out proposal to convince

management or policy-makers to implement your intervention and detail both how to deploy it and how to measure its effectiveness. You will describe in detail the specific setting, the problem to be addressed, the proposed intervention (and relevant research that gave rise to it), and methods proposed for evaluating the intervention's efficacy.

I recommend meeting with me to discuss your project well before it is due, so I can provide any input that might be helpful.

## **Notes**

- I will not accept assignments past the due dates.
- Use of electronics for non-class purposes is strictly prohibited (you will get a 15-minute break).
- DePaul Academic Integrity Policies and Procedures apply.
- Please do not ask for "extra credit" assignments.
- If any details (procedural, administrative, or other) are unclear, please ask!

## **Course Outline**

### **Module I**

#### **Introduction to Behavioral Economics, and Systems 1 and 2 Thinking**

Readings: Bazerman and Moore (BM) Ch. 1, Kahneman (K) Ch. 1-3; Thaler and Sunstein-Two Friends, 2016; Various-Daniel Kahneman, 2014; Thaler-Spock, 2015; Thaler and Sunstein-Nudge (Introduction); Thaler-The Gauntlet, 2015; Thaler and Mullainathan-Behavioral Economics, 2000; Kaushiva-Thaler's Contributions to BE, 2017; Nagatsu-History of BE, 2014; Chu-Predicting Human Behavior, 2017; Evans-In Two Minds, 2003.

### **Module II**

#### **Prospect Theory, Framing, Endowment Effect, and Mental Accounting**

Readings: K 26-27, 32, 34; BM 5; Plous-Expected Utility, 1993; Kahneman and Tversky-Prospect Theory (Technical), 1979; Kahneman and Tversky-Framing (Technical), 1981; Camerer-Prospect Theory in the Wild; Cialdini-Normative Messages, 2003; Kahneman et.al.-Endowment Effect, 1991, 2008; Ariely- Carmon-Buyer and Seller Values, 2000; Thaler-Mental Accounting and Consumer Choice, 2008; Thaler-Savings and Mental Accounts/Mental Accounting Matters, 1990/1999.

Applications: List et.al.-Teacher Incentives, 2012, Mikels et.al.-Messages that Matter in Health, 2016; Pope and Schweitzer-Tiger Woods, 2011; Johnson et.al.-Framing and Insurance, 1993; Nolan et.al.-Energy Conservation, 2008; Dommer and Swaminathan-Endowment Effect, 2012; Odean-Investors, 1998.

### Module III

#### **Overconfidence and Bounded Awareness**

Readings: BM 2, 4; K 19-24; Kahneman and Lovallo-Delusions, 2003; Russo and Shoemaker-Managing Overconfidence, 1992; Kahneman and Klein-Intuitive Expertise; Moore and van Zandt-Pitfalls of Overconfidence, 2013; Chugh and Bazerman-Bounded Awareness, 2007; Dunning and Kruger-Unskilled and Unaware, 1999; Nisbett-De Camp-Halo Effect, 1977; Bazerman and Chugh-Decisions without Blinders, 2006; Heffernan-Dangerous Convictions, 2011.

Applications: Gladwell-Cocksure, 2009; Astebro et.al.-Entrepreneurship, 2014; Malmendier and Tate-Managerial Overconfidence, 2015; Rosenzweig-Halo Effect, 2007; Mauboussin and Callahan-Paradox of Skill, 2013; Niederle and Vesterlund-Women and Competition, 2007.

### Module IV

#### **Heuristics and Biases**

Readings: BM 3; K 10-15, Kahneman and Tversky-Judgment under Uncertainty, 1974; McRaney-Confirmation, 2010; Cohan-Confirmation, 2007; Fischhoff-Hindsight; 1975; Pachur et.al.-Affect and Risky Choice, 2013; Pronin et.al.-Bias Blind Spot; Gigerenzer-Brighton-Homo Heuristicus, 2009; Stanovich and West-Biases and Cognitive Ability, 2008; Epley and Gilovich-Anchoring and Adjustment, 2006; Kahneman-Tversky-Small Numbers, 1971.

Applications: English et.al.-Criminal Sentences, 2006; Belkin-Odds of That, 2002; Gawande/Robinson-Cancer Clusters, 1999, 2002; Taber and Lodge-Political Beliefs, 2006; Joyce and Biddle-Anchoring in Auditing, 1981; Pollack-Women in Science, 2013.

### Module V

#### **Improving Decisions and Nudging**

Readings: Thaler-Choice Architecture, Sunstein-Do People Like Nudges?, Sunstein-People Like Nudges, Soman et.al.-A Practitioners' Guide to Nudging, Jung and Mellers-American Attitudes Toward Nudges, Yeung-Hypernudge, Nys and Engelen-Judging Nudging, Lovallo and Siboni-The Case for Behavioral

Strategy, Milkman et.al.-Outsmart your Own Biases, Bazerman et.al.-How Can Decision Making be Improved, Cialdini-Harnessing The Science of Persuasion, Gawande-A Life-Saving Checklist, Hollingworth and Barker-How to Use Behavioral Science to Build Habits, Ubel-Beyond Comprehension, Mochon- Single Option Aversion

Applications: Thaler and Benartzi-Save More Tomorrow, Sunstein et.al.- Europeans Support Health Nudges, Loewenstein et.al.-Asymmetric Paternalism/ Promoting Healthier Food Choices, Sunstein-Behavioral Economics and Environmental Protection, World Bank-Climate Change, Behavioral Insights Team-Charitable Giving, Behavioral Insights Team-Behavioral Insights for Cities, Soman-Behavioral Insights in Retailing

## Module VI

### **Choice Over Time**

Readings: Loewenstein et.al.-Intertemporal Choice, 2007, Loewenstein and Thaler-Intertemporal Choice, 1989, Loewenstein et.al.-Time Discounting, 2002 (Technical); Thaler and Shafir-Mental Accounting of Delayed Consumption, 2006; Thaler and Shefrin-Self Control, 1981; Ainslie-Hyperbolic Discounting, 2003; Soman et.al.-Intertemporal Discounting, 2005; Milkman et.al.-Angels and Demons, 2008; Ross-Procrastination, 2010.

Applications: Surowiecki-Later, 2010; Della Vigna-Malmendier-Gym Memberships, 2006; Smith-Hyperbolic Discounting; Ariely and Wertenbroch- Procrastination, 2002; Liu et.al./Just and Payne-Obesity, 2014/2009; Wolf-Data Driven Life, 2010; Credit (Lieber, 2010, 2014; Prelec and Simester, 2001).

## Module VII

### **Emotions, Fairness, and Ethics**

Readings: BM 6 and 8, K 4-5, Kahneman et.al.-Fairness, 1986; Fehr and Gächter-Fairness, 2000; Thaler-Dawes-Cooperation, 1988; Brafman and Barfman-Fairness and Emotions 2008; Loewenstein-Emotions, 2000; Fredrickson-Positive Emotions, 2003; Loewenstein et.al.-Risk as Feelings, 2001; Bertrand et.al.-BE and Poverty; Shah et.al.-Having too Little, 2012; Stanton et.al.-Induced Moods, 2014.

Applications: Bazerman et.al.-Accountants and Audits, 2002; Chugh and Kern-Ethics, 2009; Gertner-Happiness, 2003; Layard et.al.-Happiness and Misery, 2017; Pricing (Ailawadi and Farris, 2013; Irwin, 2017); World Bank-Poverty, 2015; Medvec et.al.-Olympics, 1995; Akerlof and Shiller-Financial Markets, 2009.

## Module VIII

### **Sunk Costs and Escalation of Commitment**

Readings: BM 7; K 32, Arkes and Blumer-Sunk Cost, 1985; Arkes and Ayton- Sunk Costs and Concord, 1999; McRaney-Sunk Cost Fallacy, 2011; Doody-Sunk Cost Not Fallacy, 2017; Kramer-Demystifying Sunk Costs, 2017; Milkman and Kelly-Escalation of Commitment, 2013; Staw and Ross-Pulling the Plug/Behavior in Escalation, 1987/1989; Staw-Escalation of Commitment, 1981; Sleesman et.al.-Commitment Escalation Meta-Analysis, 2012.

Applications: Doering-Microfinance, 2017; Hsieh et.al.-Competitors and Escalation of Commitment, 2015; Beshears and Milkman-Sell Side Stock Analysts, 2011; Schoorman-Performance Appraisals, 1988; Staw et.al.-Credit Window, 1997.

## Module IX

### **Groups and Organizations**

Readings: Sunstein and Hastie-Dumb Groups (2014); Heath et.al.-Cognitive Repairs (1998); Pfeffer and Sutton-Half-Truths and Nonsense, 2006; Woolley et.al.-Collective Intelligence/Smart Teams (2010, 2015); Lehrer-Groupthink (2012); Whyte W.-Groupthink (1952); Whyte G.-Groupthink Reconsidered (1989); Janis-Groupthink (1982); Smets-BE and Groupthink (2017); Guszczka-Sunstein on Groupthink; Sunstein and Hastie-Beyond Groupthink (2015).

Applications: Mount Everest (Krakauer (1996), Roberto & Carioggia (2003)); Gladwell-Connecting Dots (2003); Challenger (Griffin (1991), Esser & Lindoerfer (1989)); Klein and Stern-Groupthink in Academia (2009); Koerber and Neck-Groupthink in Sports (2003); Sims-Groupthink and Unethical Behavior (1992).