

## DePaul University - Kellstadt Graduate School of Business

### ECO 535 - Behavioral Economics and Decision Making

Summer 2021

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**Important:** Consider this syllabus a live document. As the term progresses, we may need to adjust some parts of it to keep the course running smoothly and in a way that is manageable for all. I am committed to giving you the best possible learning experience and to challenge you to think in new ways and explore alternative decision-making frameworks.

#### **Course Goals and Description**

The collaboration among economists, psychologists, and other behavioral and social 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 of behavioral insights 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 study methodologies to address the various challenges that decision makers face.

#### **Course Format**

We will conduct this online course in an *Online Hybrid* format. This means that:

1. I will record my lectures asynchronously and post them on D2L.
2. Every week we will have required Zoom contact hours on Mondays from 5:45 to 7:15 p.m. During these sessions we will review lecture material, have group discussions, and look at new applications of the insights covered in class.

I will post my lectures every **Monday** before 11:59 p.m. You can work through each week's lecture at your own pace but keep in mind that we will reference lecture materials during the contact hours and that there will be weekly deadlines for discussion posts (and possibly other assignments).

Please make sure to have the necessary technical resources to be able to access course materials and complete assignments. If you do not have access to the following resources, please let me know immediately so I can make accommodations for you:

- A computer that connects to the internet (web cam helpful but not required)
- A working email account that you check regularly (updated on Campusconnect). All class-related communication comes through DePaul email, so make sure to check this frequently
- Access to Microsoft Office or similar software
- Ability to playback video files

### **Office Hours**

I will conduct office hours in two ways:

-By appointment at a mutually convenient date and time. Please email me to make an appointment. I am responsive to email and will do my best to reply the same day.

-During (or immediately after) our Monday Zoom sessions.

### **Text and Materials**

There is no required textbook in this class. We will base the bulk of our discussions on academic papers and other publications. If you want to purchase a book, I recommend following two, since they contain chapter-sized versions of several of the topics we will cover:

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

-*Judgment in Managerial Decision Making*, by Max Bazerman and Don Moore, 8<sup>th</sup> ed. A different edition is OK as well.

As part of the 'Book Club' feature in this course we will read and discuss the following book:

-*Noise*, by Daniel Kahneman, Olivier Sibony, and Cass Sunstein.

Other excellent Behavioral Economics books and guides are:

-*Misbehaving*, by Richard Thaler.

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

-*The Undoing Project*, by Michael Lewis.

-*Narrative Economics*, by Robert Shiller.

*The Behavioral Economics Guides* (2014-2020), free to download from [behavioraleconomics.com](http://behavioraleconomics.com), are also great sources of relevant material. The [2021 edition](#) is coming very soon!

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

As stated, we will also rely heavily on academic and professional articles, all of which I will post on D2L. I will also post lecture slides and videos on D2L. You are responsible for checking the site periodically to access these materials as well as the discussion board topics. **Note that I do not necessarily expect you to read all the posted readings (I will not quiz you on them!).** I have spent a lot of time curating this collection of readings, and they are useful sources for the topics we will discuss in class. So please do not get overwhelmed by the number of referenced readings. This is just me sharing the output of the many-many hours I have spent screening these materials.

## **Grading**

I will determine your grade using the following components and weights:

Weekly Article Presentations (group grade)	20%
Weekly Discussions-Boards and Articles (individual grade)	20%
Midterm Presentation (individual grade)	20%
Book Club Participation (individual grade)	10%
Final Project (group grade)	30%

The grading scale is:

A	93% and above	C	73-76%
A-	90-92%	C-	70-72%
B+	87-89%	D+	67-69%
B	83-86%	D	60-66%
B-	80-82%	F	59% and below
C+	77-79%		

## ***Article Presentations/Discussions (20%)***

Starting on week three, we will have two group-based student presentations per class. You will work in groups of two and will have 30 minutes to present a paper (or papers) 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 conclusions, implications, possible extensions, and applications to other areas* (~10-15 mins.), and (c) a Q&A session (~ 5-10 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!). **Please manage your time well (this will be part of the grading criteria)**. If you are scheduled to lead a discussion, prepare a slide deck and e-mail it to me for comments at least 24 hours before the session. I will communicate with the presenters in advance to set the expectations for each discussion.

### ***D2L Discussion Boards (20%)***

Participation in the discussion boards is vital in this class. Given our class goals and approach, we will maximize learning opportunities when we all share ideas and positions and when we pay attention to the comments of others and thoughtfully respond to them. Each week, there will be one discussion board, where you are required to, at the minimum, (a) start your own thread, and (b) respond to a classmate's thread. **That is two minimum required posts per week** (feel free to exceed this minimum as you please). The topic of each thread will be related to the material covered in class that week.

### *Discussion Post Standards and Etiquette*

- a. Posts demonstrate knowledge of the class concepts and are linked to evidence and/or course material.
- b. Timely -adhere to the time window set aside for each discussion, not posted at the last minute. Timely posting leads to productive discussions, in that it allows class members to respond to each other's comments. Posts will be marked down if they are consistently entered during the last hours the board is open.
- c. If your post is related to an existing thread, you must reply to the existing thread, not create a new thread.
- d. Respectful -even when there is strong disagreement.
- e. Stimulate thinking. Do not be afraid to challenge existing comments.
- f. Encourage others to provide evidence and/or refer to course concepts to support their arguments.
- g. Move the class understanding forward.
- h. Do not ramble or post just for the sake of meeting the requirement.

Posts that simply state "I agree" or "I was going to say the same thing" or repackage what a previous classmate said are not actually discussion posts and will not be credited as such.

Please do not write in all CAPS. If you want to emphasize a word or phrase you may write it in bold, italics, underline it, or put an asterisk before and after the word or phrase.

I will actively monitor the discussion boards and participate when I see fit. I will keep track of the posting requirements and the quality of your comments. I may also give you the opportunity to submit a small portfolio of what you consider your best comments and posts.

I may also open some **optional** discussion boards throughout the quarter, where we will talk about miscellaneous topics related to behavioral science.

**Required Discussion Boards will close on Mondays at 5:30 p.m.**

### ***Midterm (20%)***

Our midterm will be a “Nudge-athon” on Week 6, where each student (individually) will make a very short presentation (**8 minutes maximum**) of an assigned study related to nudging or improving decisions. We are ‘crowdsourcing’ knowledge on these topics to build a library that you can later use for your final projects (see below). In addition to the video, students will also be responsible for uploading a slide deck and a 2-3 pages executive summary of their assigned paper(s) 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 must clearly convey the main ideas of the paper(s) in the allotted time). Your summary, video, and slides will be due in the Submissions Box on Monday, July 19 at 11:59 p.m. The format requirement for the video is mp4, ppt/pptx/pdf for the slides, and the summary will be in either pdf or Word form. **You can use whatever software you like to record your videos (Zoom, Panopto, Teams, etc.), but the video format must be mp4. If you record your presentation as a narrated ppt/pptx, export to mp4 using PowerPoint or use one of many free online tools available to do this conversion (please search!).**

### ***Book Club (10%)***

Throughout the quarter, we will be reading and discussing the new book *Noise*, by Daniel Kahneman, Olivier Sibony, and Cass Sunstein. This book has generated a lot of interest within the behavioral science community and is packed with insights and takeaways for decision making. **We will have a biweekly discussion board associated with chapters of the book and you are required to post at least one time on each board** (of course you can exceed this minimum requirement as you please). Your post can be either a thread you start or a reply to someone else’s thread. **The biweekly boards will close on the Fridays of weeks 2, 4, 6, 8, and 10 at 11:59 p.m.**

### ***Final Project (30%)***

You will -in groups of two once again- work on a final group project, which will be due in the Submissions Box on Friday, August 20 at 11:59 p.m. Below are the basic three options for your project. I will consider deviations from these options if you stay within the general theme of nudging and improving decisions.

**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 should clearly outline the proposal

and argue why your idea would be effective. Please provide a brief review of existing research relevant to your proposal and, if applicable, cite studies that support the viability and potential of your proposed venture. Observe that this is not just an aspirational 'pitch.' Your proposal must also make sense from the business standpoint.

**Option 2** - Study a case of biased business or policy decision-making: Identify and analyze an actual unwise business or policy decision or project that was rooted in one of the behavioral biases discussed in this course. Your presentation should describe the business or policy setting in detail, what judgment errors were made, as well as some evidence supporting your offered interpretation. Please briefly summarize existing studies on the relevant judgment error or biased behaviors and suggest strategies that could 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 or policy-relevant issue that you believe needs to be addressed from a behavioral standpoint and be clear about why this is the case. Then develop a proposed behavioral intervention (more than one is fine too) to address the problem and make a compelling argument for why your proposal should be implemented. The goal is to use the behavioral insights we discuss 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. Your proposal should also outline how to deploy and measure the effectiveness of your suggested intervention(s). Like before, please make sure to research the problem and cite any relevant studies that support your approach and methodology.

There will be a short final project proposal due on August 6. If necessary, we can meet over Zoom to briefly discuss your project before it is due, so I can provide any input that might be helpful.

### **Course Organization**

The learning unit in this course is the week. The term has 10 instructional weeks, and we will follow a weekly schedule that begins on Monday (i.e., new lecture notes and videos and discussion questions will be posted on Mondays).

### **Academic Integrity**

All work completed for this course must adhere to the University Academic Integrity Policy which you can review at <http://academicintegrity.depaul.edu>.

I may use plagiarism detection technology, such as **Turnitin**, for all written work submitted for this class to ensure the work is the student's own creation and is not in violation of DePaul University's Academic Integrity Policy. Submission of work for this course constitutes (i) a pledge that the work is the student's own original work and (ii) consent to have the work submitted to verify that fact.

You are welcome to use outside sources for discussion posts or other assignments, but you must cite them properly. Proper citation includes using quotation marks if you paraphrase.

## **Course Outline**

(Subject to Possible Changes)

(Prioritize Readings and in **Bold**)

### **Week 1**

(June 14)

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

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), 2008; 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; Levitt and List-Homo Economicus, 2008; Evans-In Two Minds, 2003.**

### **Weeks 2-3**

(June 21, 28)

## **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-Savings, Fungibility, and Mental Accounts/Mental Accounting Matters/Mental Accounting and Consumer Choice, 1990/1999/2008.**

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; Heutel-Energy Efficiency, 2014; List and Momeni-Corporate Social Responsibility, 2017.**

***Video Introductions due on June 21.***

***Week 3 Paper Presentation Slides due June 28.***

### **Week 4**

(July 9)

## **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/Trusting your Gut, 2009/2010; Moore and van Zandt-Pitfalls of Overconfidence, 2013; **Chugh and Bazerman- Bounded Awareness, 2007;** Dunning and Kruger-Unskilled and Unaware, 1999; **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; **Halo Effect (Nisbett and DeCamp, 1977, Rosenzweig, 2007; Lofgren, 2018);** Mauboussin and Callahan-Paradox of Skill, 2013; Niederle and Vesterlund-Women and Competition, 2007; Expert Forecasting (Tetlock & Mellers, 2011; Epstein, 2019); Intellectual Humility (Leary, 2018; Resnick, 2019).

***Week 4 Paper Presentation Slides due July 9.***

Week 5

(July 12)

### 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 and Brighton-Homo Heuristicus, 2009; **Stanovich and West- Biases and Cognition, 2008; Epley and Gilovich-Anchoring and Adjustment, 2006; Kahneman and Tversky-Small Numbers, 1971;** Festinger-Cognitive Dissonance, 1959; Rollwage et.al.-Neural Confirmation Bias, 2020.

Applications: English et.al.-Criminal Sentences, 2006; Belkin-Odds of That, 2002; **Cancer Clusters and Small Numbers (Gawande, 1999; Robinson, 2002); Political Beliefs (Taber and Lodge, 2006; Beck, 2019, Alesina et. al., 2020);** Joyce and Biddle-Anchoring in Auditing, 1981; Pollack-Women in Science, 2013; **Flynn et.al-Misperceptions, 2017;** Rawlings-Brexit, 2018; Resnick-Placebo Effect, 2017.

***Week 5 Paper Presentation Slides due July 12.***

Week 6

(July 19)

### Improving Decisions and Nudging ('Nudge-Athon')

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/Wendel/Duhigg-Behavioral Science and Habits,



Ubel-Beyond Comprehension, Mochon- Single Option Aversion; DeSmet et.al.-Faster, Better Decisions/Decisions and Urgency; Kahneman et.al.-Noise; Chu-Mental Models; Lanzing-Hypernudging; Loewenstein and Chater-Nudging in Perspective; Pykett and Johnson-Silver Bullets; Beggs-Private-Sector Nudging; Cornell-Aesthetic Toll of Nudging; Gold et. al. – Nudges as Method to Change One’s Own Behavior.

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-Retailing; Jachimowitz et.al.-Defaults; Silberg & Manyika-Bias in AI; Mazar et.al.-Salience and Framing Online; Lovallo-Market Entry; Giubilini et. al,-Nudging Immunity; Kameke and Fischer-Household Food Waste; Prainsack-Healthcare Data; Whitehead et. al.-Nudging all Over the World; Acquisti et. al.-Privacy and Security; Avineri-Road Behavior; Caplan et. al.-Organ Donations.

***Midterm Videos, Slides, and Executive Summaries due on July 19.***

Week 7  
(July 26)

### **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; **Schüll and Zaloom-Neuroeconomics and Choice in Time, 2011.**

Applications: **Gym Memberships (Della Vigna-Malmendier, 2006; Thompson, 2012, Barro, 2015)**; Smith-Hyperbolic Discounting, 2015; **Procrastination (Surowiecki, 2010; Ariely and Wertenbroch, 2002; Tank 2018)**; Obesity (Liu et.al., 2014, Just and Payne 2009); Wolf-Data Driven Life, 2010; Credit (Lieber, 2010, 2014; Prelec and Simester, 2001); McCrory Calarco-Marshmallow Test, 2018; **Willpower (Pittampalli, Resnick, 2018).**

***Week 7 Paper Presentation Slides due July 26.***

Week 8  
(August 2)

### **Emotions, Fairness, Happiness, and Poverty**

Readings: **BM 6 and 8, K 4-5, Kahneman et.al.-Fairness (X2), 1986; Fehr and Gächter-Fairness, 2000**; Thaler and Dawes-Cooperation, 1988; **Brafman and Brafman-Fairness and Emotions 2008**; Loewenstein-Emotions (Technical), 2000; Fredrickson-Positive Emotions, 2003; **Elster-Emotions, 1998**; Loewenstein et.al.-Risk as Feelings, 2001; **Shiller-Narrative Economics, 2019; Bertrand**

**et.al.-BE and Poverty, 2004**; 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); **Poverty (World Bank, 2015; Mazar et.al., 2017)**; Medvec et.al.-Olympics, 1995; **Financial Markets (Akerlof and Shiller, 2009; Koller et.al., 2005)**; Mazar et.al.-Pain of Paying, 2016; Schafer-Psychology of Selling, 2018; Bond and Lang-Happiness Scales (2019).

***Week 8 Paper Presentation Slides due August 2.***

***Final Project Proposal due August 6.***

Week 9

(August 9)

### **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; Murnighan-Carried Away, 1992.

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.

Or

### **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); Tetlock-Victims of Groupthink (1979).

***Week 9 Paper Presentation Slides due August 9.***

Week 10

(August 16)

**Guest Speaker** (TBA, save the date!)

Presentation will take place via Zoom on Monday, August 16 at 5:45 p.m.

***Attendance is required.***

***Final Project due on August 20.***