Overview

This MBA class reviews the major insights of behavioral economics, which is the application of insights from psychology and experimental economics to economic decision-making. It introduces the broad literature on behavioral insights, shows how those insights complement the familiar economic tools, and considers applications to individual choice, household choice, strategic choice, social choice, and policy.

Learning Objectives

At the end of the course, the student should know how to

- critically evaluate claims about behavior,
- how to relate those claims to mainstream theories and ideas from other classes, and
- how to use behavioral insights to inform individual, household, corporate and social decision-making.

Readings

There is no single textbook, primarily because the topics are scattered across several disciplines and have not yet been collected in one textbook.

There are many popular books on behavioral economics that I would avoid at all costs, and I'll discuss all of these in the opening class. I am requiring three texts, to span the range of topics and styles of behavioral economics. Two that I reluctantly find “stimulating” even if I disagree with much of their argument, are:

- Richard Thaler and Cass Sunstein, Nudge: Improving Decisions About Health, Wealth and
A third I recommend without reluctance is:


All are cheap online (e.g., $11 or $12 for the Ariely book on Amazon, depending on whether you purchase the Kindle or paperback edition; $10 and $12, respectively, for the Thaler-Sunstein book; and $15 and $19 for the Gneezy-List book). I am requiring all three.

There will also be a list of articles and extracts in the readings for each topic, but these will only be for background reading, and will be provided on an ongoing basis. I will provide guidance as to priority in reading, and what to look for in each text. My lecture notes provide the basic material for most topics, and will be provided electronically prior to class.

**Assessment**

Two exams, equal weight. One mid-term, covering topics 1 through X, where X will be announced later; one final, covering the remaining topics. Essay format. Grading is as follows: A is 80% to 100%, B is 70% to 79%; C is 60% to 69%, D is 50% to 59%, and F is below 50%. No “extra credit,” since it is an incoherent and unethical concept.

**Prerequisites**

None.

**Lecture Format**

There will be one class per week, with detailed listings of dates and topics at the end. This listing will be updated as we progress. Prior to each class the PPT lecture notes will be sent out electronically, allowing students to print these off and annotate as needed.

In addition, there will be some classes in the experimental economics laboratory over in the Andrew Young School of Policy Studies, in which we will run through some standard experimental tasks in behavioral economics. The results of these experiments will be reviewed in class.

**Topics**

1. Heuristics and biases
   - Review the idea of heuristics and the sense in which they generate biases in behavior compared to some benchmark
   - Maybe heuristics are not all bad all the time?

2. Helicopter tour of the behavioral street slang
   - Provide a list of all of the “affects” and heuristics that are used in the behavioral literature, and a thumbnail definition
• Methods for studying behavior: introspection, anecdotes, surveys and experiments

3. Attitudes towards risk
• Aversion to variability of outcomes
• Anomalies like the Allais Paradox
• Probability weighting
• Disappointment, regret and loss aversion
• Implications for product design and marketing

4. Attitudes towards time
• Impatience and non-constant discount rates
• Dynamic inconsistency and self-control
• The magnitude effect
• Evaluation horizons
• Implications for financial planning and investment advice
• Implications for health risks, such as smoking or drug use

5. Perceptions of risk
• The idea of subjective beliefs and subjective probabilities
• Confidence
• Literacy
• Implications for risk regulation and behavior towards health risks, such as unsafe sex

6. Risk, uncertainty and ambiguity
• The Ellsberg Paradox
• Defining uncertainty and ambiguity
• Attitudes towards uncertainty and ambiguity
• Complexity and scaffolds
• Implications for innovation and entrepreneurship

7. Learning
• Bayes rule and behavior
• Representativeness, anchoring on base rates, and the strength and weight of evidence
• Embodied cognition
• Implications for risk communication and risk regulation

8. Strategic behavior
• Bargaining behavior
• Free-riding over public goods and common pool resources
• The Winner's Curse
• Implications for corporate takeovers

9. Social preferences, reciprocity and punishment
• Altruism
• Reciprocity
• Punishment
• Social norms and conventions
• Implications for understanding household behavior

10. Nudges and the design of products and policy
  • The behavioral logic of default options
  • Examples of nudges
  • Evaluating nudges

11. “Evidence-Based Policy”
  • Using experiments to identify impacts of policy interventions
  • The strength of using randomized evaluations
  • The limitations of only using randomized evaluations

12. Behavioral Finance
  • Market efficiency
  • The equity premium
  • Dividend policy and corporate financing
  • Corporate governance

13. Behavioral Law and Economics
  • Property rights and the Coase Theorem
  • Are criminals irrational?
  • Complexity, contracts, and constitutions
  • Framing the jury: punitive damages

14. Behavioral Marketing
  • The paradox of choice: is more actually less?
  • Pricing puzzles: zero price effects and placebo effects
  • Framing choices with decoys

Timetable

A detailed timetable for each topic will be prepared closer to Fall 2014.

The final exam will be scheduled by GSU during the regular exam period.

Reading Plan

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<th>Chapters</th>
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General GSU Policies

ATTENDANCE AND PREPARATION: Regular class attendance is expected; failure to attend classes regularly may result in poor course performance. The university requires instructors to verify attendance early in the term. Failure to attend classes may result in you not appearing on the Verification Roll and being dropped from the class. Please see section 1334 of the catalog at http://www2.gsu.edu/~catalogs/2012-2013/undergraduate/#page=1. If notified in advance, the instructor will excuse absences for university-sponsored events in which a student is required to participate, performance of legal obligations, and observances of religious holidays.

A special word to VA students: Due to required University oversight of students receiving VA benefits, you have a special burden of faithful class attendance. Under present guidelines, absence for a ten-consecutive calendar day period necessitates a report to that effect to the VA Office at GSU.

DISABILITIES OR SPECIAL NEEDS: Students who wish to request accommodation for a disability may do so by registering with the Office of Disability Services. Students may only be accommodated upon issuance by the Office of Disability Services of a signed Accommodation Plan and are responsible for providing a copy of that plan to instructors of all classes in which accommodations are sought. Please let me know privately if you have a disability or special need that requires accommodation.

LATE WORK: Work that is turned in beyond any deadline that I set will receive a zero grade.

MAKE-UP EXAMINATIONS: Generally, make-up examinations are not allowed. A student who is ill or otherwise knows that he or she will not be able to attend a scheduled
examination should notify me prior to the examination of the reason for the expected absence. I will then determine whether a student’s situation warrants scheduling a make-up based on the facts and circumstances.

GSU ACADEMIC HONESTY POLICY: All university and college regulations concerning academic honesty shall apply. In general, students are expected to recognize and uphold standards of intellectual and academic integrity. The university assumes as a minimum standard of conduct in academic matters that students be honest and that they submit for credit only the products of their own efforts.

All students should read and understand the portions of the University Policy on Academic Honesty that relate to plagiarism, unauthorized collaboration, falsification, and multiple submissions. The University Policy on Academic Honesty is explained in detail in the student handbook, On Campus, available online at

http://www2.gsu.edu/~wwwdos/codeofconduct_conpol.html.

This Policy represents a core value of the University. All members of the University community are responsible for knowing and abiding by its tenets. Students are expected to carefully review the online Policy prior to undertaking any research or other assignments.

GSU WITHDRAWAL POLICY: A student who withdraws prior to the midpoint in the semester or term will be awarded a “W”. A student who withdraws after the midpoint will automatically receive a “WF.” You are responsible for understanding and adhering to the W limit policy which is described at http://robinson.gsu.edu/resources/files/ouaa/policy_flyer.pdf.

INCOMPLETE GRADES: I do not give incomplete grades in this course, except for cases where a student missed the final examination for an excusable reason. According to GSU policy, the grade will automatically be converted to an F if it is not removed by the end of the second academic term after the “I” is assigned.

STUDENT ASSESSMENT: Your constructive assessment of this course plays a role in shaping education at Georgia State. Upon completing the course, please take time to fill out the online course evaluation.