



## **Behavioral Economics: Decisions and Strategies**

**Spring 2021**

**Simon W. Bowmaker**

### **Background**

Over the past 30 years, psychologists and economists have joined forces to study how people process information and actually make decisions, rather than how they would make a decision if they were fully rational, selfish and had unlimited willpower. This research program (dubbed behavioral economics) has provided an understanding of how people's decisions deviate from "optimal" choices as well as the consequences of such deviations. This course is devoted to understanding the nature, causes, and implications of these limitations.

### **Objectives**

The course is intended for future managers, industry analysts, consultants, and advisors, and has two main objectives. First, it provides a broad overview of important results from behavioral economics that clarify how people really make decisions. Second, it seeks to improve the ability of the student to influence the behavior of others, be they consumers, employees, or people outside of a business relationship altogether. This will be accomplished by building on the toolbox that standard economics provides for influencing behavior (namely, incentives and information) with the insights from the aforementioned stream of research in behavioral economics.

### **Format**

The course is intended to be intellectually stimulating and challenging. I value class participation and application of the ideas and theories we will be discussing. Classroom time will be devoted to a combination of lectures, discussions, a guest speaker, and group presentations illustrating the main concepts.

### **Readings**

There is no required textbook. Please see the course schedule for the reading that is assigned for each class.

## **Grading**

Midterm exam (35%)

Final exam (40%)

Group presentation (15%)

Class participation (10%)

## **Group presentations**

Everyone will take part in a group presentation (3-4 people per group) that applies course material to a business problem. One possibility is to report on something you have read that is relevant to the course, a problem that course concepts would solve, or a small research project. These should be practically minded and of the form “how has this course helped me think about possible explanations and/or solutions to this problem or puzzle?”

## **Course website**

All announcements regarding the course will be made on NYU Classes. Besides administrative issues, I may post clarifications on the class material. You are responsible for checking NYU Classes for announcements on a regular basis (i.e., at least a couple of times a week).

## **Course policies**

*Exams and re-grading.* You are responsible for checking the exam dates and avoiding any conflict with other commitments. Exams will not be re-administered on other dates. During an online exam, you are allowed to consult class notes, books, or any other material, i.e. it is open book. However, you may not confer with your classmates or with anyone else during the exam. Questions about grading must be made in writing and no more than a week after the exams are returned.

*Honor code.* The Stern community believes that honesty and integrity are necessary for rewarding academic and professional experiences. These qualities form the basis for the strong trust among members of the academic community (students, faculty, and administrators) that is essential for excellence in education. The Stern Code of Conduct (available online at <https://nyustern.campusgroups.com/ose/code-of-conduct/>) requires that each student act with integrity in all academic activities and endeavor to hold his or her peers to the same standard.

*Other policies.* Unless explicitly stated otherwise, students should assume that Stern’s default policies (available online at <http://www.stern.nyu.edu/portal-partners/registrar/policies-procedures/general-policies-1>) are in force.

## **Diversity, inclusion, and equity**

I am deeply committed to maintaining a classroom culture that respects and embraces diversity, inclusion, and equity. For more information about NYU Stern’s continued efforts in this area, please visit: <https://www.stern.nyu.edu/portal-partners/diversity-inclusion>

## Student Accessibility

If you will require academic accommodation of any kind during this course, you must notify me at the beginning of the course and provide a letter from the Moses Center for Student Accessibility (212-998-4980, [mosescsa@nyu.edu](mailto:mosescsa@nyu.edu)) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the Moses Center for Student Accessibility, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation. For more information, visit the CSA website: <https://www.nyu.edu/students/communities-and-groups/student-accessibility.html>

## Course Schedule

**\*Required reading   \*\*Recommended reading**

### Class 1:

### Introduction

**Tuesday, February 9**

#### Reading:

\*James Guszcza (2016), 'The Importance of Misbehaving: A Conversation with Richard Thaler,' *Deloitte Review*, Issue 18.

\*\*Sunstein, Cass and Richard Thaler (2016), 'The Two Friends Who Changed How We Think About How We Think,' *The New Yorker*, December 7

\*\*Richard Thaler (2018), 'Behavioral economics from nuts to 'nudges,' *Chicago Booth Review*, May 7:

<https://review.chicagobooth.edu/behavioral-science/2018/article/behavioral-economics-nuts-nudges>

### Class 2:

### Prospect Theory

**Tuesday, February 16**

#### Reading:

\*Barberis, N.C. (2013), 'Thirty Years of Prospect Theory in Economics: A Review and Assessment,' *Journal of Economic Perspectives*, 27(1): 173-196.

\*\*Carl Richards (2013), 'Overcoming an Aversion to Loss,' *The New York Times*, December 9:

<https://www.nytimes.com/2013/12/09/your-money/overcoming-an-aversion-to-loss.html>

### Class 3:

### Heuristics and Biases

**Tuesday, February 23**

#### Reading:

\*Tversky, Amos and Daniel Kahneman (1974), 'Judgment under uncertainty: heuristics and biases,' *Science*, 185: 1124-1131.

\*\*Lisa Belkin (2002), 'The Odds of That,' *The New York Times*, August 11:

<https://www.nytimes.com/2002/08/11/magazine/the-odds-of-that.html>

**Class 4:**                      **Choice**    **Tuesday, March 2**

Reading:                      \*Loewenstein, G. and R. Thaler (1989), 'Anomalies: Intertemporal Choice,' *Journal of Economic Perspectives*, 3: 181-193.

                                     \*\*James Surowiecki (2011), 'Delayed Gratification,' *The New Yorker*, December 26:

<https://www.newyorker.com/magazine/2012/01/02/delayed-gratification>

**Class 5:**                      **Mental Accounting + Midterm**    **Tuesday, March 9**

Reading:                      \*Thaler, R.H (1999), 'Mental Accounting Matters,' *Journal of Behavioral Decision Making*, 12: 183-206.

                                     \*\*Erica Goode (2018), 'Mice Don't Know When to Let Go Either,' *The New York Times*, July 12:

<https://www.nytimes.com/2018/07/12/health/sunk-costs-decisions.html>

Midterm in second half of class

**Class 6:**                      **Fairness**    **Tuesday, March 16**

Reading:                      \*Fehr, E. and S. Gächter (2000), 'Fairness and Retaliation: The Economics of Reciprocity,' *Journal of Economic Perspectives*, 14 (3): 159-181.

                                     \*\*Denise D. Cummins (2016), 'The Surprising Role of Fairness in Economic Decision-Making,' *Scientific American*, July 25.

<https://blogs.scientificamerican.com/mind-guest-blog/the-surprising-role-of-fairness-in-economic-decision-making/>

Guest Speaker (second half of class): Mr. Jordan Goldberg, Chairman, StickK.

**Class 7:**                      **Emotions**    **Tuesday, March 30**

Reading:                      \*Loewenstein, G. (2000), 'Emotions in Economic Theory and Economic Behavior,' *American Economic Review*, Papers and Proceedings, 90 (2): 426-432.

                                     \*\*Jon Gertner (2003), 'The Futile Pursuit of Happiness,' *The New York Times Magazine*, September 7.

<https://www.nytimes.com/2003/09/07/magazine/the-futile-pursuit-of-happiness.html>

Class exercise

**Class 8:      Motivation**

**Tuesday, April 6**

Reading:      \*Ariely, D., Gneezy, U., Loewenstein, G. and N. Mazar (2009), 'Large Stakes and Big Mistakes,' *Review of Economic Studies*, 76 (2): 451-469.

\*\*Jena McGregor (2016), 'What companies get wrong about motivating their people,' *The Washington Post*, November 25.

<https://www.washingtonpost.com/news/on-leadership/wp/2016/11/25/what-companies-get-wrong-about-motivating-their-people/>

Group presentations

**Class 9:      Poverty**

**Tuesday, April 13**

\*Mani, A., Mullainathan, S, Shafir, E., and J. Zhao (2020), 'Scarcity and Cognitive Function around Payday: A Conceptual and Empirical Analysis,' *Journal of the Association for Consumer Research*, 5(4): 365-376.

\*\*Cara Feinberg (2015), 'The Science of Scarcity,' *Harvard Magazine*, May-June.

<https://harvardmagazine.com/2015/05/the-science-of-scarcity>

Group presentations

**Class 10:      Behavioral Game Theory**

**Tuesday, April 20**

Reading:      \*Camerer, C.F. (1997), 'Progress in Behavioral Game Theory,' *Journal of Economic Perspectives*, 11(4): 167-188.

\*\*Hyde, Tim (2017), 'Can Schelling's focal points help us understand high-stakes negotiations,' American Economic Association, January 4:

<https://www.aeaweb.org/research/can-schellings-focal-points-help-us-understand-high-stakes-negotiations>

\*\*Derek Thompson (2013), 'Can Your Language Influence Your Spending, Eating, and Smoking Habits,' *The Atlantic*, September 10.

Group presentations

**Class 11:**      **Happiness**

**Tuesday, April 27**

**Reading:**

\*Blanchflower, D.G. (2021), 'Is happiness U-shaped everywhere? Age and subjective well-being in 145 countries,' *Journal of Population Economics*, 34: 575-624.

\*\*Jamie Doward (2020), 'I thought I had hit the age of peak happiness. How wrong I was,' *The Guardian*, January 19:

<https://www.theguardian.com/lifeandstyle/2020/jan/19/peak-happiness-peak-misery-47-psychology-wellbeing>.

\*\*James Hamblin (2014), 'Buy Experiences, Not Things,' *The Atlantic*, October 7:

<https://www.theatlantic.com/business/archive/2014/10/buy-experiences/381132/>

\*\*Stephanie Rosenbloom (2021), 'Travel and The Art of Anticipation,' *The New York Times*, February 5:

<https://www.nytimes.com/2021/02/05/travel/future-trips-anticipation.html>

Group presentations

**Class 12:**      **Course wrap-up + final exam**

**Tuesday, May 4**