

BEHAVIORAL ECONOMICS

Lecturing/Exercises – 45 hours

WHY BEHAVIORAL ECONOMICS AT ZSEM?

The primary goal of this course is an introduction to the insights gained from incorporating psychology into economic modeling. Behavioral economics is one of the fastest growing scientific fields and field of practice. This interdisciplinary field is a combination of concepts derived from microeconomics, social & cognitive psychology, behavioral decision research, consumer research, neuroeconomics, experimental economics etc. Its main focus is on the question “How do people make decisions”. Some of the more specific questions include: How do real people execute decisions to quit smoking, commit to a relationship or save for retirement? How do they cope with risk and uncertainty? How do they weigh the present against the future? How do people perceive money and use it? Do people know what made us happy in the past and what will make us happy in the future? Do we know what made us happy in the past and what will make us happy in the future? How can brain imaging reveal in-depth comprehension of brain processes relevant to decision making? Why we fail on “Mondays” to start dieting or exercising? ...

Besides theoretical insight in this discipline, students will be presented with practical knowledge on how to manage the choice architecture, generate successful business strategies and to improve their own decision-making. Knowledge of these issues can be a significant source of competitive advantage, because they are unknown to most managers and are not taught in most undergraduate and MBA programs.

TOPICS

Overview, Judgment & decision making
1 Failures of the "Rational Man" Paradigm
2 System1 & System2, Heuristics
3 Prospect theory
4 Reference Dependence, Loss Aversion
5 Frames, Mental accounting
6 Happiness
7 Time Inconsistency, Self-Control
8 Overconfidence, Optimism, Magical Thinking
9 Identity
10 Neuromarketing
11 Game theory, fairness, altruism, shame
12 Behavioral finance
13 Libertarian paternalism and public policy

ELEMENTS OF GRADE

In accordance to course structure, the class grade consists of:

Paper analysis & presentation 50 points

Attendance 30 points

Take-home exam 20 points

LITERATURE

Matthew Rabin, “A Perspective on Psychology and Economics,” *European Economic Review* 46 (2002), pp. 657-685; <http://dx.doi.org/10.1016/S0014-2921%2801%2900207-0>.

Colin Camerer and George Loewenstein, “Behavioral Economics: Past, Present, Future,” Chapter 1 in “Advances”; manuscript at <http://www.hss.caltech.edu/~camerer/ribe239.pdf>

Daniel Kahneman, “Maps of Bounded Rationality: Psychology for Behavioral Economics,” *American Economic Review* 93 (2003), 1449-1475; http://www.princeton.edu/~kahneman/docs/Publications/Maps_bounded_rationality_DK_2003.pdf

Daniel Kahneman, “A Psychological Perspective on Economics,” *American Economic Review Papers and Proceedings* 93 (2003), pp. 162-168; <http://ase.tufts.edu/gdae/CS/Psychological%20Perspective.pdf>

Amos Tversky and Daniel Kahneman, "Judgment under Uncertainty: Heuristics and Biases," *Science* 185 (1974), pp. 1124 – 1131; http://psiexp.ss.uci.edu/research/teaching/Tversky_Kahneman_1974.pdf

Brendl, C. M., Markman, A., & Higgins, T. E. (1998). Mental accounting as self-regulation: Representativeness to goal-derived categories. *Sonderheft Konsumentenpsychologie*, 29, 89-104.
http://www.kellogg.northwestern.edu/faculty/brendl/htm/BMH_1998_English.pdf

Gonzalez, C., Dana, J., Koshino, H., & Just, M. (2005). The framing effect and risky decisions: Examining cognitive functions with fMRI. *Journal of Economic Psychology*, 26, 1-20.
<http://repository.cmu.edu/cgi/viewcontent.cgi?article=1012&context=sds>

Prelec, D., & Loewenstein, G. (1998). The Red and the Black: Mental Accounting of Savings and Debt. *Marketing Science*, 17, 4–28.
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Ariely, D. (2009). *Predvidljivo iracionalni*. Zagreb: VBZ.

Sunstein, C. R. & Thaler, R. H. (2009). *Poticaj*. Zagreb: Planetopija.

Gigerenzer, G. (2009). *Snaga intuicije: inteligencija nesvjesnoga*. Zagreb: Algoritam

Akerlof, G. A. & Kranton, R. E. (2012). *Ekonomija identiteta*. Zagreb: Mate.

Gilboa, I. (2013). *Racionalni izbor*. Zagreb: Mate.

Belsky, G. & Gilovich T. (2000). *Why smart people make big money mistakes and how to correct them*. Simon & Schuster