BEHAVIORAL ECONOMICS & DECISION MAKING
Professor Elizabeth C. Webb

B8619 SEC 001 AND SEC 002
SPRING 2016

Professor: Elizabeth C. Webb
ecw2144@columbia.edu

Office Hours: TBD
and available upon request

Teaching Assistants
Sec 001: TBD
Sec 002: TBD

Office Hours:
B8619-001: 12:30PM to 2:00PM M/W WJW 310
B8619-002: 2:15PM to 3:45PM M/W WJW 310

★★★ WHAT YOU NEED TO KNOW ★★★

Below is a list of the most important things for the class (grading outline, course requirements, and required reading materials). If you email me or ask me a question about something that is answered in this section, I will refer you to the syllabus (and judge you harshly). For details on any of the points below, please consult the remainder of the syllabus. Due dates are listed in the Course Roadmap at the end of the syllabus.

1. **Before coming to the first class**, please do the pre-class survey (the link is provided on Canvas and I will send out announcements reminding you to complete it before the first class meeting). The survey will count towards your participation grade, so even if you join the class late, please complete it!

2. **Bring your clicker to every class** meeting, as it will be used for attendance and in-class exercises.

3. There is a **strict no laptop/device policy** in class. Students who have special permission to use a laptop during class can see me before the first class meeting. Otherwise, if you have a laptop, it must be stored during class. All other electronic devices (phones, tablets, etc.) are also prohibited during class time.

4. **One textbook is required** for the course: (1) *Judgment in Managerial Decision Making* (8th edition) by Bazerman & Moore. There will also be a **course reader** available for pick-up before class starts. I highly recommend purchasing *Thinking, Fast and Slow* by Daniel Kahneman as well, but it is not required.

5. **Participation is 25% of your grade** – 10% determined by class attendance (recorded via clickers), and 15% determined by in-class engagement and participation in the out-of-class exercises.
6. **Written assignments are 60% of your grade.** There will be seven assignments total and you will have to complete six of them (if you do all seven, I will drop your lowest score for one of your assignments). All written assignments will be case-based.

7. A **group presentation will be 15% of your grade.** Groups should be 4-6 people and the presentation will happen during the last week of class. Presentations should be 8-10 minutes in length.

8. You can earn **up to 5% extra credit** by submitting examples of concepts we have discussed in class that have been published in the current press. Media of all types are acceptable (videos, articles, podcasts, etc.). You must provide a write-up of 3-5 sentences explaining the relevance of the material you are submitting.

9. The first half of the class will be more theory focused to build the foundations that we need to move into a discussion of applications (the second half of the class).

   *** Course Objectives ***

The purpose of this course is to inform future managers, analysts, consultants, and advisors of the psychological processes and biases underlying decision-making, with an emphasis on how to incorporate such insights into marketing and business strategies.

The class has two main facets. First, it will give you a broad overview of important results from various behavioral sciences that clarify how people make decisions. Second, it will provide you with advice about applying these findings to topics in marketing, management, and finance (each the focus of approximately one-third of the class material). Classroom time will be devoted to a combination of lectures, discussions, and exercises illustrating the main concepts.

   *** Classroom Culture ***

This course adheres to Columbia Core Culture. Therefore, you are expected to be present, prepared, and participating. This means:

- Being on time and present for every session (attendance will be tracked)
- Completing the readings and assignments before class
- Expecting cold-calling
- Bringing your nameplates and clickers to every class meeting
- Participating in a meaningful way is expected and part of your grade
- Using electronic devices is not allowed

   *** Format ***

This class is intended to be intellectually stimulating and challenging. I value class participation and the application of the ideas and theories that will be presented. Student engagement and interaction is my favorite part of teaching, so I hope to see buy-in from everyone in the classroom.
There is a strict no laptop/no electronic device policy in class. Accordingly, laptop usage is not permitted during class time with exceptions made only under special circumstances. All other electronic devices – tablets, phones, etc. – are also prohibited during class time. Please turn off or silence all such devices when you are in the classroom. This policy is to ensure better comprehension and participation, which will make the class better for everyone. Since there are no laptops allowed, I will provide handouts for all of the lectures for note-taking purposes. If you have any questions about this policy, please see here first: goo.gl/YuLA3A (“To Remember a Lecture Better, Take Notes by Hand,” The Atlantic).

*** MATERIALS ***

One book is required for this course:

1. *Judgment in Managerial Decision Making* (8th edition) by Max H. Bazerman & Don A. Moore (referred to as “Bazerman” hereafter)

I also highly recommend purchasing *Thinking, Fast and Slow* by Daniel Kahneman (referred to as “Thinking” hereafter). While purchase is not required, this book is comprehensive while also being incredibly easy to read, and can be a good companion for the course.

A course reader will be available for pick-up before the first meeting of class. Readings will also be available in PDF format on Canvas. Please note: readings from Bazerman will not be reproduced in the class reader.

The readings in the course packet and listed in the syllabus are required material that should be read before class. Cases listed in the syllabus should always be prepared before class.

*** EVALUATION ***

1. Participation (25%). In a course like this, the adage “garbage-in-garbage-out” is especially true. You will only get out of this course as much as you are willing to put in, and lively class discussion is essential for learning this material. It is therefore very important that you take an active role in classroom activities and discussions and come fully prepared.

The class participation grade will be determined by:

- Class attendance recorded via clickers (10%)
- Constructive participation in-class and completion of the out-of-class exercises (15%)

2. Writing Assignments (60%). To reinforce the learning process, you are required to do six written assignments to receive a passing grade for the course. You may also do a seventh assignment. If you do a seventh assignment, I will drop the lowest score and your grade for the assignments will be based on your six highest scores. Of the writing assignments listed in the course roadmap, you can choose which six you would like to turn in.
Assignments should be done on an individual basis. You may discuss the case and assignment with other students in the class, but each person must submit their own paper with original work.

All of the writing assignments will be case-based and **must be turned in prior to the start of class**, since we will be discussing and analyzing the case together in class. **Late assignments will not be accepted** and any cases submitted after five minutes into class will not be graded.

Here are some general guidelines for preparing effective write-ups:

1. Be concise and to the point. Provide a strong, logical flow in your analysis. Above all, do not spend time rehashing or paraphrasing the details of the case.
2. Make your assumptions explicit whenever necessary, and defend their reasonableness.
3. Your analysis should be thorough, be carried out correctly, and should draw whenever relevant on material presented in class or assigned in readings.
4. Focus any specific recommendations on the important issues in the case. Recommendations should be practical, cost-effective, and appropriate to the timing (short-term or long-term) of the problem at hand.

**Formatting requirements:**

Writing assignments have a **strict four-page limit**. All papers should be **double-spaced** with 1” margins and **12-point font**. **Failure to follow formatting guidelines will result in a grade reduction.** Please submit assignments using Canvas.

3. **Group Presentation (15%).** Students will work in small groups of 4-6 (depending on class size) to give a presentation in-class. This presentation should be a brief (8-10 minutes maximum) talk on one of the topics/questions listed at the end of this syllabus. These topics span the entire range of material that will be covered throughout the semester.

Group presentations will be scheduled for the last week of class. Please **inform me of your topic choice (via Canvas) by the end of Week 6**. No two groups will be allowed to present on the same topic, so if you have a topic you are really excited about, you should email me sooner rather than later. **Topics will be assigned on a first-come, first-served basis.** The order for the presentations will be randomly assigned.

4. **Extra Credit (up to 5%).** You can receive extra credit if you find an example from the **current press** that illustrates an idea or concept from the course. This can be an article, video, podcast, interview, etc. **The example must be “recent,” meaning within the past three months.** Please provide a write-up that is approximately one paragraph (3-5 sentences) indicating why you think your submission is a good example of something we have talked
about in class. **You must submit the write-up to me electronically by email.** Please remember to begin your subject line with “BEDM.”

- In your email, include your commentary, the URL for the example, and an attachment or screenshot of the article, video, etc.

- If the example you send is really good and appropriate, I will award you extra credit (a total of 1% per example with a maximum of 5% for the semester). About **50% of submissions** will be awarded extra credit.

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### Grading System

All assignments will be graded using a five-point system. All grading will be done blindly. The grades can be interpreted as follows:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
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<tbody>
<tr>
<td>1</td>
<td>Some evidence of reading, but little understanding of the psychology or how it works. Minimal application of course concepts to the actual question that was asked.</td>
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<tr>
<td>2</td>
<td>An attempt at applying the course material, but with little or no depth of analysis (possibly just repeating ideas from the reading).</td>
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<tr>
<td>3</td>
<td>A solid application of the course material, with some good points but few creative insights. <strong>The majority of papers will receive this grade.</strong></td>
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<tr>
<td>4</td>
<td>A deeper level of thinking than the obvious answer. Clearly written with creative examples.</td>
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<tr>
<td>5</td>
<td>An exceptional paper with an original insight and clear analysis. Such papers make us say, “I wish I had thought of that!” <strong>Very few of these grades are given.</strong></td>
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### COURSE ROADMAP

#### WEEK 1
*Wednesday, January 27th, 2016*

**Your Two Brains: Econs vs. Humans**

**Readings**
- Thinking, Ch. 1, 2, 3

**To-Do**
- Complete the pre-class survey BEFORE the start of class

*Friday, January 29th, 2016*

NO CLASS

#### WEEK 2
*Monday, February 1st, 2016*

**Loss Aversion: Why Losses Have More Impact than Gains**

**Readings**
- Thinking, Ch. 26, 27
- Gourville, Why Consumers Don’t Buy

*Wednesday, February 3rd, 2016*

**Perception of Risks: The Use of Heuristics in Judgment and Decision-Making (Part 1)**

**Readings**
- Bazerman, Ch. 1 (pp. 1-10 only), Ch. 3
- Thinking, Ch. 29 and 30

#### WEEK 3
*Monday, February 8th, 2016*

**Perception of Risks: The Use of Heuristics in Judgment and Decision-Making (Part 2)**

**Readings**
- See above

*Wednesday, February 10th, 2016*

**Confidence & Consistency**

**Readings**
- Bazerman, Ch. 2
- Influence (Robert Cialdini), Ch. 3
## WEEK 4
*Monday, February 15th, 2016*

<table>
<thead>
<tr>
<th>Mental Accounting: How to Partition Payment Streams &amp; Set Prices</th>
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<td><strong>Readings</strong></td>
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<td><strong>To-Do</strong></td>
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*Wednesday, February 17th, 2016*

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<tr>
<th>Perceptions of Fairness</th>
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<td><strong>Readings</strong></td>
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<td><strong>To-Do</strong></td>
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## WEEK 5
*Monday, February 22nd, 2016*

<table>
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<tr>
<th>Impatience: How People Really Discount and Self-Control</th>
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<tbody>
<tr>
<td><strong>Readings</strong></td>
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<tr>
<td><strong>Wednesday, February 24th, 2016</strong></td>
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<tr>
<td>(1) Choosing and (2) Helping Consumers with Risk</td>
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<tr>
<td><strong>Readings</strong></td>
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<td><strong>To-Do</strong></td>
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## WEEK 6
*Monday, February 29th, 2016*

### Memory and Decisions

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<tr>
<th>Readings</th>
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<tbody>
<tr>
<td>Thinking, Ch. 4 and 5</td>
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<tr>
<td>Bazerman, pp.60-69</td>
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*Wednesday, March 2nd, 2016*

### Emotion, Affect, and Consumer Choice

<table>
<thead>
<tr>
<th>Readings</th>
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<tbody>
<tr>
<td>Cialdini (2001): Harnessing the Science of Persuasion (HBR)</td>
</tr>
<tr>
<td>Bazerman, pp.114-118</td>
</tr>
<tr>
<td>Selling CFLs at Wal-Mart Case</td>
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<table>
<thead>
<tr>
<th>To-Do</th>
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<tbody>
<tr>
<td>→ Read the Selling CFLs at Wal-Mart Case before class</td>
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<tr>
<td>→ Submit case writing assignment before class</td>
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<td>→ Submit your group presentation topic</td>
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## WEEK 7
*Monday, March 7th, 2016 and Wednesday, March 9th, 2016*

**NO CLASS**

## WEEK 8
*Monday, March 14th, 2016 and Wednesday, March 16th, 2016*

**NO CLASS**

## WEEK 9
*Monday, March 21st, 2016 and Wednesday, March 23rd, 2016*

### Application to Organizations Making Decisions

<table>
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<tr>
<th>Readings</th>
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<tbody>
<tr>
<td>Thinking, Ch.23 and 24</td>
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<tr>
<td>Jon Krakauer (1996): Into Thin Air, <em>Outside Magazine</em></td>
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<th>To-Do</th>
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<tbody>
<tr>
<td>→ Read the Into Thin Air article</td>
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<td>→ Submit the writing assignment before class (on Wednesday)</td>
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### WEEK 10
*Monday, March 28th, 2016*

**Consumer Financial Decision-Making**

<table>
<thead>
<tr>
<th>Readings</th>
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<tbody>
<tr>
<td>Bazerman, Ch. 9</td>
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<tr>
<td>The Signal and the Noise (Nate Silver), pp. 364-368</td>
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*Wednesday, March 30th, 2016*

**Behavioral Game Theory: How People Really Think Strategically**

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<thead>
<tr>
<th>Readings</th>
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<tbody>
<tr>
<td>Bazerman, pp.69-80, Ch. 11</td>
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### WEEK 11
*Monday, April 4th, 2016 and Wednesday, April 6th, 2016*

**Experts vs. Novices: When Do People Do Better Than Models? Are Experts as Good as They Think?**

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<thead>
<tr>
<th>Readings</th>
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<tbody>
<tr>
<td>Thinking, Ch. 20 and 22</td>
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<tr>
<td>The Signal and the Noise (Nate Silver), Ch. 2</td>
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<tr>
<td>Google Prediction Markets (GPM) Case</td>
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**To-Do**

- Read GPM Case
- Submit writing assignment before class (on Wednesday)

### WEEK 12
*Monday, April 11th, 2016 and Wednesday, April 13th, 2016*

**Defaults and Choice Architecture**

<table>
<thead>
<tr>
<th>Readings</th>
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<tr>
<td>Nudge, Introduction and Ch. 5</td>
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<tr>
<td>Goldstein, Johnson, Herrmann, and Heitmann (HBR)</td>
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<tr>
<td>Behavioural Insights (A) Case</td>
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**To-Do**

- Read Behavioral Insights (A) Case
- Submit writing assignment before class (on Monday)
### WEEK 13
*Monday, April 18\(^{th}\), 2016 and Wednesday, April 20\(^{th}\), 2016*

<table>
<thead>
<tr>
<th>Happiness: How Good Are We at Predicting What Will Make Us Happy?</th>
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<tr>
<td><strong>Readings</strong></td>
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<tr>
<td>▪ Thinking, Ch. 35, 36, 37 and 38</td>
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<tr>
<td>▪ WSJ Blog Post about where to live available here:</td>
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### WEEK 14
*Monday, April 25\(^{th}\), 2016 and Wednesday, April 27\(^{th}\), 2016*

<table>
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<th><strong>Student Presentations</strong></th>
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<tr>
<td>Each group will give an 8-10 minute talk on their assigned topic</td>
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Below are the questions/topics you will be asked to respond to for the writing assignments listed in the Course Roadmap.

1. **JC Penney**
   a. Using principles from mental accounting, explain why Johnson’s pricing strategy may not have worked as intended.
   b. Do you think the pricing problem was a strategy or execution problem? Did Johnson just need more time?
   c. If you were hired to replace Ullman (as Johnson was), what would be your plan for pricing? If you had to switch to a high-low format, what would you do differently from Johnson? Would you do anything the same?

2. **Coca-Cola Vending Machine (A)**
   a. What did Coca-Cola do right? What did it do wrong?
   b. What do you think of Ivester’s comments? What would you have said if you were Ivester?
   c. Using principles of mental accounting, how would you introduce a paradigm shift or increase the price?
   d. How would you change the public’s perceptions of fairness/ethicality related to Coca-Cola’s potential decision to introduce dynamic-pricing vending machines?

3. **Toro S’no Risk Program**
   a. The Toro No S’no case raises issues that involve many of the concepts we have studied during the course. Write a memo to Pollick giving him some insights on what Toro should do the following year and why.

4. **Selling CFLs at Wal-Mart Case**
   a. Why does Wal-Mart care about CFLs? Why do consumers care about CFLs?
   b. What is the diagnosis? Why has public reception been so lousy? You should be able to tie in several concepts we have discussed already.
   c. Identify potential solutions for the problems/issues you identify in the preceding question. In other words, how could the problems be addressed or overcome?
   d. What about LED bulbs? Will they face the same problems?

5. **Into Thin Air Article**
   a. Why are the climbers up there? Consider the motivation and incentives facing each participant. What are the implications for potential decision biases and corrective measures?
   b. What are the defining characteristics of the decision-making environment on Mt. Everest? Setting aside the extreme physiological conditions, what are the biggest challenges for good decision-making?
   c. Describe the decision process used by Hall and Fischer. What mistakes did the guides or members of the climbing teams make during the climb to the summit?
Why were these mistakes made? How do these mistakes relate to concepts we have discussed in the course?

d. If you were advising a friend interested in organizing an expedition to the top of Mt. Everest (or some other large but potentially dangerous mountain), what advice would you give to him/her based on the concepts of this course?

6. Google Prediction Markets
   a. Is it a good idea to encourage all employees to trade in these markets? Should insiders and/or highly uniformed people be allowed to trade? Do they help the market or hurt it?
   b. What kind of decisions are prediction markets useful for?
   c. Will most managers welcome prediction markets within their companies? Why or why not? Will they welcome a prediction market about a project or outcome that they’re responsible for?
   d. How would you get managers to use the prediction markets in their decision-making?

7. Behavioural Insights Case
   a. Do the assignment listed at the end of the case: using principles of behavioral economics, develop the best possible letter to send to delinquent taxpayers.

   ◆◆◆ GROUP PRESENTATION TOPICS ◆◆◆

Please inform me of your choice (via Canvas) by the end of Week 6. No two groups will be allowed to present on the same topic, so if you have a topic you are really excited about, you should email me sooner rather than later. Topics will be assigned on a first-come, first-served basis.

1. One of the lessons of this course is that framing “matters.” Some people have learned that lesson better than others. Find an example of inept framing in the news and fix it. That is, find a quote or argument by anyone being quoted in any news source that you think could be improved had they known how to “frame” and rewrite it in a way that you think will be superior. Explain why you think your approach is better.

2. Mental accounting, to the extent that it violates fungibility, is irrational (according to economic theory). Do you think there are any circumstances where mental accounting makes people better off nonetheless? How?

3. Use mental accounting to develop a new pricing strategy for some product or service.

4. To deal with self-control problems, many people use the equivalent of sunk costs to commit themselves to an activity. Examples include paying a large annual health club fee rather than paying per visit, or buying season tickets for the theater. Can you suggest other products that might benefit from using prepayment as a self-control device? Devise a marketing strategy to implement this plan.
5. Although people usually procrastinate by postponing the completing of unpleasant tasks, there are also situations in which people procrastinate the enjoyment of something pleasurable, such as drinking a special bottle of wine, and the activity is continuously postponed. Suppose that you are a seller of luxury goods that has this problem (such as fine wines). How do you get your customers to quit delaying consumption?

6. Make a copy of a regular statement (or web interface) you or someone you know receives from a financial services company such as Fidelity or Vanguard. Do whatever is necessary to make the statement confidential (black out names and/or amounts). Now, make some suggestions for how this statement could be improved. Be sure to say explicitly what you are trying to improve. Come up with a prototype to show the class.

7. Apply one of Cialdini’s principles to a business problem of personal interest.

8. During the month of April, Columbia Business School admissions kicks into overdrive, with many events for prospective students. Consider that the way prospective students select business schools may not be entirely rational; they may use rules of thumb, such as elimination by aspects or reason-based choice, which can lead to some surprising outcomes. Imagine that you are in charge of recruiting. What will you do about these heuristics? When do they hurt our ability to attract good students, and when can we use them in our favor?

9. Imagine that you have just taken the job of running the Columbia Business School admissions office. One of the statistics professors has come to you to suggest that you could do a better job of picking students for the school if the admissions office had less discretion in the selection process. Instead, you could commission the statistics department to fit a model to predict success (somehow defined) and then just pick the students who score highest on this model. What do you think of this plan? What problems to you anticipate? How would you solve them? Is it “fair” (whatever that means)? If you decided to implement this plan, would you make it public? What role would you assign to interviews?

10. Can you think of how you would apply the idea of a linear model, proper or improper, to improve business decisions in your business? What are the barriers to doing so? Why do you think it would or would not work?

11. Describe a situation from business or life where non-cooperative game theory would predict a different outcome from what is observed. What is rational, and would you say that the agents are acting irrationally? What is missing from the theory that, if added, describes the situation? Is welfare helped or harmed because of this factor?

12. GDP is one of the most-cited measures of well-being across countries. Cite one advantage and disadvantage of using this measure, and drawing on principles from the course, suggest how this measure might be improved.
13. Identify an example of bad choice architecture from the user’s viewpoint. Why did the designer choose this particular design? Was it intentional? What was its outcome on choices? Propose an alternative design and explain how it would improve choice.

***** OTHER RECOMMENDED READINGS *****