MGT 854

BEHAVIORAL ECONOMICS: INDIVIDUALS, ORGANIZATIONS, AND MARKETS

2012 (Spring-1)

Mondays & Wednesdays
room A30 (at the School of Management)

Section 1: 10:10am – 11:30pm
Section 2: 1:00pm – 2:20pm
Section 3: 2:40pm – 4:00pm

Professor: Keith Chen
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Professor: Shane Frederick
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Teaching Assistants:
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Course description:
In this class, we will attempt to reunite the disciplines of psychology and economics, which began drifting apart about a century ago. In particular, we will consider how predictions of economic behavior differ when several assumptions that simplify economic models are replaced with psychologically realistic assumptions based on empirical observations from the lab and from the world. We will pay special attention to the way in which these modified assumptions affect markets, management, and public policy.

Course Materials
There are two required books (neither costs more than $17):
- Nudge
- Thinking Fast and Slow

The remaining readings will either be posted on line or handed out in class.
Grading
Final grades will be based on the following:

1) Class Participation 40% 160 points
2) Final Exam 60% 240 points

TOTAL = 100% 400 points

Schedule, Spring 2011
MGT 854 Behavioral Economics

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<td>Feb. 15th</td>
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<td>Feb. 27th</td>
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READINGS:

- **JAN 9TH: INTRODUCTION TO BEHAVIORAL ECONOMICS**
  - No readings for first class.

- **JAN 11TH: HEURISTICS AND BIASES**

- **JAN 13TH: MARKETS THAT MOVE (AND ARE MOVED BY) BELIEFS**

- **JAN 18TH: TIME PREFERENCES: THEORY AND STYLIZED FACTS**
  - Shane Frederick, George Loewenstein & Ted O'Donoghue. (2002). *"Time discounting and time preference: A critical review," Journal of Economic Literature*, 40. 351-401. Note: Parts of this paper are technical, skimming it for intuition will be sufficient.

- **JAN 23TH: RISK PREFERENCES: THEORY AND NORMATIVE BEHAVIOR**
  - Note: this paper is very technical, skimming it for intuition will be sufficient.
  - Rabin, *Diminishing Marginal Utility of Wealth Cannot Explain Risk Aversion*

- **JAN 25TH: TIME AND RISK PREFERENCES: MARKETS FOR SELF-CONTROL AND SAFETY**
  - *Delayed Gratification*, by James Surowiecki in the New Yorker
  - Oster & Scott Morton, *Magazine Subscription Prices*, BEJ, 2005
  - Note: This paper has three sections, the second of which is very technical. Read sections one and three, then read section two only if you have experience with formal modeling.

- **JAN 30TH PROSPECT THEORY**
FEB 1ST DOES PROSPECT THEORY MOVE MARKETS?
- Camerer, *Prospect Theory in the Wild: Evidence from the Field*
  - *NOTE: First Homework due in class.*

FEB 6TH CHANGING BEHAVIOR: INCENTIVES AND NUDGES
- *Nudge* (chapters 1-6)

FEB 8TH SHROUDED PRICES AND ATTRIBUTES: MARKETS WITH CONSUMER INATTENTION
- Video: the Pay Per Lux model: [http://bcove.me/baorl28n](http://bcove.me/baorl28n)
- Facts About the Title Insurance Market: [Wikipedia Article](https://en.wikipedia.org/wiki/Title_insurance)

Feb 13th OVERCONFIDENCE
- Readings: TBA

FEB 15TH CURRENT RESEARCH BY CHEN AND FRIENDS
- Readings: TBA

FEB 20TH CURRENT RESEARCH BY FREDERICK AND FRIENDS
- Readings: TBA
  - Final Exam: posted on V2.

Feb 27TH FINAL EXAM: due by noon, submitted on V2.