ISM UNIVERSITY OF MANAGEMENT AND ECONOMICS

APPROVED BY
THE STUDY COMMISSION
Minutes No. 02-12-2024-02
as of 31st January 2024

BEHAVIORAL ECONOMICS

Course code	*ECO134*
Compulsory in the programs	
Level of studies	*Undergraduate*
Number of credits and hours	*6 ECTS (48 contact hours + 2 consultation hours, 110 individual work hours)*
Course coordinator	*Prof. Dr. Sandra Polanía-Reyes, dokt. Nomeda Lisauskienė*
Prerequisites	
Language of instruction	*English*

THE AIM OF THE COURSE:

This course delves into the interdisciplinary field of behavioral economics, exploring the psychological factors that influence economic decision-making. Students will examine how individuals deviate from traditional economic models and explore various behavioral phenomena, decision-making biases, and their implications for economic outcomes. Also, students will acquire a combination of theoretical knowledge (i.e. foundational principles in economics and psychology, decision-making models) and practical skills (i.e. experimental methods, empirical applications, policy implications and ethical considerations) related to understanding and analyzing economic behavior in real-world settings. The general framework is based on the three fundamental trade-offs humans face (in economics): Risk vs. return, today vs. tomorrow, self vs. others. A special emphasis is put on explicitly identifying the underlying assumptions behind commonly used concepts. Interactive components will help students identify ways in which they violate basic assumptions and explore reasons for doing so, as well as ways to overcome easily exploitable choice biases. Topics covered include heuristics and biases, prospect theory, intertemporal choice, social preferences, and the implications of behavioral economics for public policy.

MAPPING OF COURSE LEVEL LEARNING OUTCOMES (OBJECTIVES) WITH DEGREE LEVEL LEARNING OBJECTIVES, ASSESMENT AND TEACHING METHODS

Course level learning outcomes (objectives)	Degree level learning objectives (ELO)	Assessment methods	
CLO1. Define and explain the core principles and concepts of behavioral economics.	ELO1.1. ELO4.1.	Policy brief, Policy brief presentation, class participation	Lectures, class discussions, teamwork assignments
CLO2. Understand experimental methodologies used in behavioral economics research.	ELO1.1. ELO2.1.		
CLO3. Apply behavioral economics principles to analyze and interpret real-world economic phenomena.	ELO1.1.		
CLO4. Critically evaluate economic models and theories from a behavioral perspective.			
CLO5. Analyze how individuals make economic decisions, incorporating insights from psychology and behavioral economics.			
CLO6. Understand heuristics, biases, and other psychological factors influencing decision-making.	ELO1.1. ELO2.1.		
CLO7. Apply behavioral insights to propose innovative solutions to economic challenges.			

ACADEMIC HONESTY AND INTEGRITY

The ISM University of Management and Economics Code of Ethics, including cheating and plagiarism are fully applicable and will be strictly enforced in the course. Academic dishonesty, and cheating can and will lead to a report to the ISM Committee of Ethics. Regarding remote learning, ISM remind students that they are expected to adhere and maintain the same academic honesty and integrity that they would in a classroom setting.

COURSE OUTLINE

Topic	**In-class hours**	**Readings**
Rational choice under certainty	4	(4) chap. 2
Decision-Making under certainty	4	(4) chap. 3
Judgment under risk and uncertainty	4	(4) chap. 4 and 5
Choice under risk and uncertainty	4	(4) chap. 6 and 7

Intertemporal choice	4	(4) chap 8 and 9
Game theory	4	(4) chap. 10 and 11
What is all the fuss about Behavioral economics?	4	(1) (2) (3)
The experimental method	4	(3) (5) (1)
Automatic thinking: Why do we make bad decisions?	4	(2) (3) (6)
Social thinking: Why others matter	4	(2) (3)
Behavioral policy	4	(2)
Final project presentation and feedback	4	
	Total: 48 hours	
CONSULTATIONS	2	
FINAL EXAM	2	

FINAL GRADE COMPOSITION

Type of assignment	%
Group Components 50%	
Group Presentation (20%)	20
Written Group Assignment (30%)	30
Individual Components 50%	
Written Individual Assignment (50%)	50
Total:	100

DESCRIPTION AND GRADING CRITERIA OF EACH ASSIGNMENT

We will have a combination of formal lectures, interactive games, class discussions, presentations, and teamwork.

- **Group Presentation (20%):** Students will work on a final project applying behavioral economics concepts to a real-world scenario. Each group will present three possible solutions using behavioral economics and will submit **a Written Group assignment (30%).** Every student will evaluate each other's contributions to both the written assignment and the presentation. This evaluation will determine individual grades in the group tasks.
- **Written Individual Assignment (50%):** Individual assignment applying behavioral economics concepts to a real-world scenario.

RETAKE POLICY

In case of failing final evaluation, students can participate in a **retake exam** and will substitute written individual assignment. Retake consists of topics from the entire course and comprise 50% of the final grade.

REQUIRED READINGS

The reading list below is a suggested reading list. It is by no means comprehensive but is provided as a way for students to gain an introduction to the field. Under each topic, readings marked with ** are highly recommended as they provide a good overview of the key concepts. Where possible, selected readings will be made available via Drive. Please don't be shy about seeking help if something is unclear or confusing! Ask questions as they arise during lectures and make sure you read all mandatory background readings. Be ready to discuss their content on the day that they are due.

(1) **Dhama, S. (2016) Ch 1, The Foundations of Behavioural Economic Analysis, Oxford University Press, Oxford, UK
(2) **World Bank Group, (2015) World Development Report: Mind, Society, and Behaviour; world Bank, Washington, DC. (2015)
(3) **Thaler, R. and Sunstein, C. (2009) Nudge: Improving decisions and health, wealth and happiness, Penguin Books
(4) **Angner, Erik, A Course in Behavioral Economics, 3rd Ed. (London: Red Globe Press, 2021).
(5) **Chaudhuri, A. (2009) Experiments in Economics: Playing fair with money, New York, NY: Routledge.
(6) **Mullainathan, S and Shafir, E. (2013) Scarcity: Why having too little means so much", Times Books, Henry Holt and Company, New York.

(7) **Henrich, J., R. Boyd, S. Bowles, C. Camerer, E. Fehr, H. Gintis, R. McElreath, M. Alvard, A. Barr, J. Ensminger, N.S. Henrich, K. Hill, F. Gil-White, M. Gurven, F.W. Marlowe, J.Q. Patton, and D. Tracer. 2005. ""Economic Man" in cross-cultural perspective: Behavioral experiments in 15 small-scale societies." Behavioral and Brain Sciences 28:795-855.

The following are optional readings:

Introduction

- Mullainathan, S. (2004) "Psychology and Development Economics", Working Paper, Massachusetts Institute of Technology.
- Gneezy, U., and A. Rustichini "A Fine is a Price," Journal of Legal Studies, vol. XXIX, 1, part 1, 2000, 1-18

The experimental method

- Thaler, R.H. and Sunstein, C. (2003) "Libertarian Paternalism", American Economic Review, 93 no.2, 175-79.
- Benz, M. and Meier, S. (2006) "Do people behave in Experiments as in the Field? Evidence from Donations", Institute for Empirical Research in Economics, Working Paper 248, February, University of Zurich.
- Cleave, B.; Nikiforakis, N. and Slonim, R. (2011) "Is there selection bias in Laboratory Experiments? The Case of Social and Risk Preferences, IZA Discussion Paper No. 5488, February.
- Duflo, E. and Kremer, M. (2003) "Use of Randomization in the Evaluation of Development Effectiveness", Paper prepared for the World Bank Operations and Evaluation Department Conference on Evaluation and Development Effectiveness, Washington DC, Massachusetts Institute of Technology.
- Harrison, G. (2011) "Randomisation and Its Discontents", Journal of African Economies, Vol. 20, No.4, pp 626-652.
- Barrett, C. and Carter, M. (2010) "The Power and Pitfalls of Experiments in Development Economics: Some nonrandom reflections", Applied Economic Perspectives and Policy.

On behavioral economics

- Ashraf, Nava, Colin Camerer, and George Loewenstein. "Adam Smith, Behavioral Economist." Journal of Economic
- Perspectives 19, no. 3 (summer 2005).
- Bendle and Chen, Behavioral Economics for kids. 2014 here
- Manning, Lauren; Dalton, Abigail Goodnow; Afif, Zeina; Vakos, Renos; Naru, Faisal. 2020. Behavioral Science Around the World Volume II: Profiles of 17 International Organizations (English). eMBeD report. Washington, D.C.: World Bank Group HERE
- Bryan, C. J., Mazar, N., Jamison, J., Braithwaite, J., Dechausay, N., Fishbane, A.,Vakis, R. (2017). Overcoming behavioral obstacles to escaping poverty. Behavioral Science & Policy, 3(1), 81–91. HERE
- IDB 2020 Rapid Toolkit for Behavioral Interventions and COVID-19 HERE
- IDB 2017 Behavioral Insights for Development : Cases from Central America HERE
- WB 2022 The behavioral profesional. HERE
- Harford, Tim. The Undercover Economist. In the library here

The most influential experimental studies (These are the studies that form the basis of most current research)

Early developments in experimental economics 1959 – 1980

- Smith. V (1962), "An Experimental Study of Competitive Market Behavior", Journal of Political Economy 70(2), 111 – 137.
- Plott C. and V. Smith (1978), "An Experimental Examination of Two Exchange Institutions", Review of Economic Studies 45(1), 133 – 153.
- Kahneman D. and A. Tversky (1979), "Prospect Theory: An Analysis of Decision Making Under Risk", Econometrica, 263 – 291.
- Tversky, A. and Kahneman, D. (1974) Judgement under Uncertainty: Heuristics and Biases, Science, 185, 1124-31.

The big 80's, 1981 - 1989

- Tversky, A. and Kahneman, D (1981) The Framing of Decisions and the Psychology of Choice, Science 211, 453-88.
- Binswanger, H. (1980), "Attitudes Toward Risk, Experimental Measurement in Rural India." American Journal of Agricultural Economics. 62, 395-407.
- Thaler, R. (1981), "Some Empirical Evidence on Dynamic Inconsistency", Economics Letters 8(3), 201-207
- Plott C. and S. Sunder (1982), "Efficiency of Experimental Security Markets with Insider Information: An Application of Rational Expectations Models", Journal of Political Economy 90(4), 663-698.
- Gueth, W, R. Schmittberger, and B. Schwarze (1982), "An Experimental Analysis of Ultimatum Bargaining", Journal of Economic Behavior and Organization 3(4), 367 – 388.
- Selten R. and R. Stoecker (1986), "End Behavior in Sequences of Finite Prisoner's Dilemma Supergames: A Learning Theory Approach", Journal of Economic Behavior and Organization 7, 47 – 70.

- Kagel J.and D. Levin (1986), "The Winner's Curse and Public Information in Common Value Auctions", American Economic Review 76(5), 894 – 920.
- Smith, V., G. Suchanek, and A. Williams (1988) "Bubbles, Crashes, and Endogenous Expectations in Experimental Spot Asset Markets", Econometrica, 56, 1119-1151.
- Isaac R. M. and J. Walker (1988), "Group Size Effects in Public Good Provision: The Voluntary Contribution Mechanism", Quarterly Journal of Economics 103(1), 179-199

The 90s

- Kahneman, D, Knetch, J.L. and Thaler, R. (1991) Anomalies: the Endowment effect, Loss Aversion and Status Quo
- Bias", Journal of Economic Perspectives, 5 no.1, 193-206.
- Van Huyck, J., R. Battalio and R. Biel (1990) "Tacit Coordination Games, Strategic Uncertainty, and Coordination Failure", American Economic Review, 80, 234-248.
- McKelvey, R. and T. Palfrey (1992), "An Experimental Study of the Centipede Game," Econometrica, 60, 803-836. (Link) Fehr, E., G. Kirchsteiger and A. Riedl (1993), "Does Fairness Prevent Market Clearing? An Experimental Investigation", Quarterly Journal of Economics 108(2), 437 – 459.
- Forsythe R., J. Horowitz, N. Savin, and M. Sefton (1994), "Fairness in Simple Bargaining Experiments", Games and Economic Behavior 6, 347 – 369.
- Nagel R. (1995), "Unraveling in Guessing Games: An Experimental Study", American Economic Review 85(5), 1313 – 1326.
- Berg, J., J. Dickhaut and K. McCabe (1995), "Trust, Reciprocity, and Social History", Games and Economic Behavior 10, 122 – 142.
- Eckel, C. and Grossman, P. (1996) "Altruism in Anonymous Dictator Games", Games and Economic Behaviour, vol 16, pps 181-191.
- Gale, J., K.G. Binmore, and L. Samuelson. 1995. "Learning to be imperfect: The ultimatum game." Games and Economic Behavior 8:56-90.

2000 - 2005

- Fehr E. and S. Gaechter (2000), "Cooperation and Punishment in Public Goods Experiments", American Economic Review 90(4), 980 – 994.
- Bertrand, M. and Mullainathan, S. (2004) "Are Emily and Greg More Employable than Lakisha and Jamal?" A Field Experiment on Labor Market Discrimination", American Economic Review, Vol. 94(4), September
- Dufwenberg M. and U. Gneezy (2000) "Price Competition and Market Concentration: An Experimental Study", International Journal of Industrial Organization18, 7-22
- Charness G. and M. Rabin (2002) "Understanding Social Preferences with Simple Tests" Quarterly Journal of Economics, 117, 817-869
- Holt C. and S. Laury (2002), "Risk Aversion and Incentive Effects", American Economic Review 92(5), 1644 – 1655.
- Huck, S., W. Muller, and H. T. Normann (2001), "Stackelberg Beats Cournot: On Collusion and Efficiency in Experimental Markets", Economic Journal 11, 749 – 765.
- Gneezy U. (2005), "Deception: The Role of Consequences" American Economic Review 95(1), 384 – 394.
- Fershtman, C. and Gneezy, U. (2001) "Discrimination in a Segmented Society: An Experimental Approach", The Quarterly Journal of Economics, February 2001.
- Zelmer, J. 2003. "Linear public goods experiments: A meta-analysis." Experimental Economics 6(3): 299-310.
- Fehr, E. and Gachter, S. (2000) Cooperation and Punishment in Public Goods Experiments, American Economic Review, 90 (4), 980-994.

2006-

- Ashraf, N., I. Bohnet, and N. Piankov. 2006. "Decomposing trust and trustworthiness." Experimental Economics 9 (193-208).
- Burns, J. (2011) "Race, Diversity and Pro-social Behaviour in a Segmented Society", Journal of Economic Behavior and Organisation, 81, pp 366-378.
- Cappelen, A.W.; Konow, J., Sørensen, E. and Tungodden, B. (2013) Just Luck: An Experimental Study of Risk Taking and Fairness; American Economic Review, 103(4), 1398-1413.
- Cappelen, A.W.; Moene, K.; Sørensen, E. and Tungodden, B. (2013) Needs vs entitlements - an international fairness experiment, Journal of the European Economic Association, 11(3), 574-598.
- Cappelen, A.W.; Hole, A.D.; Sørensen, E. and Tungodden. B. (2007) The pluralism of fairness ideals: An experimental approach; American Economic Review, 97(3), 818-827.
- Almas, I.; Cappelen, A. and Tungodden, B. (2016) Cutthroat capitalism versus cuddly socialism: Are Americans more meritocratic and efficiency seeking than Scandinavians?", Norwegian School of Economics, Discussion Paper.
- Almas, I.; Cappelen, A., Salvanes, KG, Sorenson, E., Tungodden, B. (2017) Fairness and family background, Politics, Philosophy and Economics, Vol 16(2), 117-31.

- Cappelen, A.; Fest, S. and Sorenson, E. Choice and personal responsibility: What is a morally relevant choice?" Norwegian School of Economics Discussion Paper.
- Houser, D., D. Schunk, and J. Winter. 2010. "Distinguishing trust from risk: An anatomy of the investment game." Journal of Economic Behavior and Organization 74:72-81.

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ANNEX

DEGREE LEVEL LEARNING OBJECTIVES

Learning objectives for the Bachelor of Business Management
Programmes:
International Business and Communication,
Business Management and Marketing,
Finance,
Industrial Technology Management,
Entrepreneurship and Innovation

Learning Goals	Learning Objectives
Students will be critical thinkers	BLO1.1. Students will be able to understand core concepts and methods in the business disciplines
	BLO1.2. Students will be able to conduct a contextual analysis to identify a problem associated with their discipline, to generate managerial options and propose viable solutions
Students will be socially responsible in their related discipline	BLO2.1. Students will be knowledgeable about ethics and social responsibility
Students will be technology agile	BLO3.1. Students will demonstrate proficiency in common business software packages
	BLO3.2. Students will be able to make decisions using appropriate IT tools
Students will be effective communicators	BLO4.1. Students will be able to communicate reasonably in different settings according to target audience tasks and situations
	BLO4.2. Students will be able to convey their ideas effectively through an oral presentation
	BLO4.3. Students will be able to convey their ideas effectively in a written paper

Learning objectives for the Bachelor of Social Science
Programmes:
Economics and Data Analytics,
Economics and Politics

Learning Goals	Learning Objectives
Students will be critical thinkers	ELO1.1. Students will be able to understand core concepts and methods in the key economics disciplines
	ELO1.2. Students will be able to identify underlying assumptions and logical consistency of causal statements
Students will have skills to employ economic thought for the common good	ELO2.1.Students will have a keen sense of ethical criteria for practical problem-solving
Students will be technology agile	ELO3.1. Students will demonstrate proficiency in common business software packages
	ELO3.2. Students will be able to make decisions using appropriate IT tools
Students will be effective communicators	ELO4.1.Students will be able to communicate reasonably in different settings according to target audience tasks and situations
	ELO4.2.Students will be able to convey their ideas effectively through an oral presentation
	ELO4.3. Students will be able to convey their ideas effectively in a written paper