ISM UNIVERSITY OF MANAGEMENT AND ECONOMICS

APPROVED BY
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Minutes No. 02-12-2024-11
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ISM VADYBOS IR EKONOMIKOS UNIVERSITETAS

BEHAVIORAL ECONOMICS

2024/25

Course code	*GRAE022*
Compulsory in the programmes	***Behavioural Economics***
Level of studies	***Graduate***
Number of credits	***6 ECTS (36 contact hours + 2 consultation hours, 124 individual work hours)***
Course coordinator (title and name)	***Prof. Dr. Slavisa Tasic***
	slatas@faculty.ism.lt
Prerequisites	*None*
Language of instruction	*English*

THE AIM OF THE COURSE

In this course we examine the role of rationality in economic theory and practice. We will study what rationality means in various areas of economics, how realistic the assumption of rationality is, how deviations from the assumed standards of rationality impact economic policy and financial behavior. Using textbook readings, journal articles, classroom experiments, and exercises we will review some important results of behavioral economics and discuss the implications of these results for economic theory and public policy. The course will also introduce some influential critiques, challenges, and recent debates in the field of behavioral economics.

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

Course level learning outcomes (objectives)	Degree level learning objectives (Number of LO)	Assessment methods	Teaching methods
CLO1. Understand and apply the main concepts, research tools and methodologies of behavioral economics that help to reveal biases, heuristics, etc. in the decision making process on individual, corporate, policy, and financial market level.	LO1.1.	Quizzes, Class Participation, Project, Final Exam	Lectures
CLO2. Present the main results in the field of behavioral economics focusing on financial market processes including market anomalies.	LO1.1, LO3.1	Project, Final Exam	Lectures, seminars
CLO3. Explore behavioral economics considering financial, investment and dividend policy decisions and contrasting traditional and behavioral approaches.	LO1.1, LO3.1 LO3.2	Quizzes, Class Participation, Project, Final Exam	Lectures, seminars
CLO4. Research, prepare and present behavioral economics problems	LO1.1, LO1.2 LO3.1, LO3.2	Project	Seminars

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. With regard to 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

Session	Topics	In-class hours	Readings
Oct 17	Defining rationality Microeconomics: choice under certainty Game theory Rationality in macroeconomics and finance	4	Varian, 2009, Chapters 2-7 Cowen, 2001 Diamond et al. 1997 (optional)
Oct 21	Choice under uncertainty Expected Utility Theory Prospect Theory	4	Varian, 2009, Chapter 12 Kahneman & Tversky, 1979 (optional)
Oct 22	Epistemological questions in economics Economic beliefs Deduction vs induction Questions of causality	4	Rubin, 2003 Caplan, 2007 Boyer & Petersen 2018, pp. 1-5. Friedman, 2020 Friedman, 1966 (optional)
Oct 24	Heuristics and biases paradigm Two systems Biases, fallacies and illusions	4	Kahneman, 2011, Ch. 1 & 2 Samson, 2023, pp. 174-202 Thaler, 1999 (optional)
Oct 25	Understanding of probability Bayes' theorem in decision making Bayesian thinking	4	De Langhe, 2017 Pinker, 2021 Kahneman & Tversky, 1974 (optional)
Oct 28	Behavioral finance Stock market behavior Investing anomalies	4	Jakab, 2019 Levine, 2019 Malkier & Shiller, 2020 Martin, 2024
Oct 29	Behavioral public policy Nudging Behavioral public choice	4	Sunstein, 2014 Kessler & Roth 2014 Lucas & Tasic 2015 Tasic, 2009 (optional)
Oct 30	Critique of the heuristics and biases paradigm Replication crisis Ecological rationality paradigm	4	Gigerenzer, 2015 Gigerenzer, 2023 Taleb, 2017 Keynes, S. 2023 Buturovic & Tasic, 2015 (optional)
Nov 6	Course overview Project discussions Project presentations	4	
	Project Due		

	Consultations	2	
	Final Exam	2	

FINAL GRADE COMPOSITION

Quizzes (10%)
We will have 8 short quizzes – one every class day, starting from the second class day. They will be related to the class material covered in the class before. Quizzes will consist of multiple choice questions and short answer questions. Quizzes will be open book.

The total quiz score is the simple sum of your best 6 scores (out of 8 quizzes).

Participation (10%)
The nature of this course demands active participation and meaningful engagement. We will run small experiments and discuss readings, video clips and quizzes in class. Participation in such activities is graded with 10%; but extra credit may be awarded for exceptional participation.

Final Exam (40%)
The Final Exam will include a set of multiple-choice and short-answer questions. The exam will be closed book. The use of printed material or electronic equipment will not be allowed.

The Final Exam can be retaken and the Retake counts for 40% of the final grade.

Project (40%)
For the Project you can choose ONE of the following options:

Policy Option: Write an Opinion Piece

- **Description**: Write an opinion piece in the form of a newspaper op-ed. Op-eds are brief, argumentative articles that advocate for or against a particular idea, policy, or action. Your article should make an argument about a real-world issue. You can freely choose your topic, as long as it generally status within the context of the course. The typical length of the op-ed is around 800 words and yours should be of similar length; but the quality of writing and editing must be exceptional. This is an individual assignment.

- **Deadlines**:
  November 1: Submit the first draft to the instructor for feedback.
  November 6: Present the idea of your article and discuss it with the class during our final meeting. Presentation slides are optional.
  November 11: Submit the final version of the article for grading.

Research Option: Conduct an Experiment

- **Description:** Conduct an experiment designed to test a particular behavioral phenomenon, described in a presentation that should include explanations, tables, and charts as needed. You can use a behavioral concept from existing literature or propose an entirely new one, and develop your own experimental design or survey to test it. You can perform your experiment or run a survey in the current classroom or online. This can be an individual assignment or a joint assignment (two-member groups only).

- **Deadlines:**

November 1: Complete consultations with the instructor about the research topic and methodology.
November 6: Present your research and findings to the class during our final meeting.
November 11: Submit the final version of the presentation and the accompanying abstract for grading.

Evaluation:
For both options, both the presentation skills and content matter, but content is valued more. The content (including quality of the article; or the quality of the experiment & written presentation) will weigh 90% in the grade, while the oral part of the presentation will weigh 10%.

READING LIST

Boyer, Pascal and M. B. Petersen. 2018. Folk-economic Beliefs: An Evolutionary Cognitive Model. *Behavioral and Brain Sciences* 41.

Buturovic, Zeljka and Slavisa Tasic. 2015. Kahneman's Failed Revolution Against Economic Orthodoxy. *Critical Review* 27.

Caplan, Bryan. 2007. The Myth of the Rational Voter. *Cato Policy Analysis* 594.

Cowen, Tyler. 2001. How Do Economists Think about Rationality? In *Satisficing and Maximizing*, ed. Michael Byron. Cambridge University Press.

De Langhe, Bart, Stefano Puntoni, and Richard Larrick. 2017. Linear Thinking in a Nonlinear World. *Harvard Business Review.*

Diamond, Peter, Eldar Shafir and Amost Tversky. 1997. Money Illusion. *Quarterly Journal of Economics* 112.

Friedman, Jeffrey. 2020. *Power Without Knowledge*. New York: Oxford University Press. (seminar exceprt).

Friedman, Milton. 1966. The Methodology of Positive Economics. In *Essays In Positive Economics*. Chicago: Univ. of Chicago Press.

Gigerenzer, Gerd. 2015. Towards a Rational Theory of Heuristics. Mimeo.

Gigerenzer, Gerd. 2023. Psychological AI: Designing Algorithms Informed by Human Psychology. *Perspectives on Psychological Science* 1-10.

Jakab, Spencer. 2019. Making Monkeys Out of the Sohn Investing Gurus. *The Wall Street Journal.*

Kahneman, Daniel and Amos Tversky. 1974. Judgement under Uncertainty: Heuristics and Biases. *Science* 185.

Kahneman, Daniel and Amos Tversky. 1979. Prospect Theory: An Analysis of Decisions under Risk. *Econometrica* 47.

Kahneman, Daniel. 2011. *Thinking Fast and Slow*. New York: Farrar, Straus and Giroux.

Kessler, Judd & Alvin Roth. 2014. Don't Take 'No' for an Answer: An Experiment with Actual Organ Donor Registrations. *Harvard Business School Working Knowledge.*

Keynes, Soumaya. 2023. Behavioural scientists suffer from bias — but so do their critics. *Financial Times.*

Levine, Matt. 2019. Good Investors Make Investing Harder. *Bloomberg*.

Lucas, Gary & Slavisa Tasic. 2015. Behavioral Public Choice and the Law. *West Virginia Law Review* 118(1).

Malkiel, Burton & Robert Shiller. 2020. *Pairagraph.*

Martin, Katie. 2024. Grumblers about passive investing may have a point. *Financial Times*. Opinion section, January 23.

Pinker, Steven. 2021. Why You Should Always Switch: The Monty Hall Problem (Finally) Explained. *Behavioral Scientist*.

Samson, Alain (ed). 2023. *Behavioral Economics Guide*.

Sunstein, Cass. 2014. Nudging: A Very Short Guide. *Journal of Consumer Policy* 583.

Taleb, Nassim. 2017. "How to be Rational about Rationality", in *Skin in the Game*.

Tasic, Slavisa. 2009. The Illusion of Regulatory Competence. *Critical Review* 21(4).

Tasic, Slavisa. 2011. Are Regulators Rational? *Journal des Economistes et des Etudes Humaines* 17(1).

Thaler, Richard. 1999. Mental Accounting Matters. *Journal of Behavioral Decision Making* 12.

Varian, Hal. 2009. *Intermediate Microeconomics*. 8th edition. New York: W. W. Northon & Co.

ANNEX

DEGREE LEVEL LEARNING OBJECTIVES

Learning objectives for <u>Master of Social Science</u>
Programme:
Financial Economics

Learning Goals	Learning Objectives
Students will be critical thinkers	LO1.1. Students will be able to identify underlying assumptions, limitations of previous research; evaluate managerial solution alternatives.
	LO1.2. Students will become **independent learners** and develop their own comprehension of scientific theories, models, and concepts.
Students will be socially responsible leaders	LO2.1. Students will be able to evaluate past and current practices in their discipline from an **ethical perspective**.
Students will be effective communicators	LO3.1. Students will develop and deliver a **coherent oral presentation**.
	LO3.2. Students will develop and deliver a **coherent written research paper**.