

BEHAVIORAL ECONOMICS

Course code	<i>GRAE031</i>
Compulsory in the programmes	<i>Behavioural Economics</i>
Level of studies	<i>Graduate</i>
Number of credits	<i>6 ECTS (36 contact hours + 2 consultation hours, 124 individual work hours)</i>
Course coordinator (title and name)	<i>Nomeda Lisauskienė</i> nomlis@faculty.ism.lt
Prerequisites	<i>None</i>
Language of instruction	<i>English</i>

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 also builds knowledge in experimental economics—covering the design.

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 16	Introduction to behavioral economics Defining rationality Microeconomics: choice under certainty Game theory Rationality in macroeconomics and finance	4	Varian, 2009, Chapters 2-7 Cartwright, Chapter 1 Cowen, 2001 Diamond et al. 1997 (optional)
Oct 20	Heuristics and biases paradigm Two systems Biases, fallacies, and illusions	4	Cartwright, Chapter 2 Kahneman, 2011, Ch. 1 & 2 Samson, 2023, pp. 174-202 Thaler, 1999 (optional)
Oct 23	Choice under uncertainty Expected Utility Theory Prospect Theory	4	Varian, 2009, Chapter 12 Cartwright, Chapter 3 Kahneman & Tversky, 1979 (optional)
Oct 27	Experimental economics Online, laboratory, field experiments, natural experiments Neuroeconomics Seminar presentation	4	Cartwright, Chapters 1, 9 Weinmann, Brosig-Koch, 2019 (optional)
Dec 1	Intertemporal choice Hyperbolic discounting Present bias	4	Cartwright, Chapter 4 Frederick et. al., 2002 Becker & Murphy, 1988 (optional)
Dec 3	Understanding of probability Bayes' theorem in decision making Bayesian thinking	4	Cartwright, Chapter 5 De Langhe, 2017 Pinker, 2021 Kahneman & Tversky, 1974 (optional)
Dec 4	Project discussions Project presentations	4	
Dec 8	Behavioral finance Stock market behavior Investing anomalies	4	Cartwright, Chapter 3 Jakab, 2019 Levine, 2019 Malkier & Shiller, 2020 Martin, 2024
Dec 9	Behavioral public policy Nudging Behavioral public choice	4	Cartwright, Chapters 10-11 Sunstein, 2014 Kessler & Roth 2014
	Final Exam	2	

FINAL GRADE COMPOSITION

Type of assignment	%
<i>Group Components 40%</i>	
Presentation	20%
Project	20%
<i>Individual Components 60%</i>	
Quizzes	10%
Final exam	50%
Total:	100

DESCRIPTION AND GRADING CRITERIA OF EACH ASSIGNMENT

Quizzes (10%)

We will have short individual 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 5 scores.

Presentation during Seminar (20%)

- Description:** groups of three. Choose ONE topic: online experiments, lab experiments, field experiments, or design (between vs within).
 Part 1 (theory, 2–3 slides): provide a definition, key pros/cons (when it works/doesn't), internal vs external validity considerations, and ethical constraints. Cite 2–3 seminal APA-7 sources (list will be provided).
 Part 2 (article, 4 slides): Choose a published study matching your topic (provide APA-7 citation). Start with a central design diagram (mandatory) – showing groups/conditions, timeline, IV/DV/controls. State the RQ & hypotheses, sample & setting, randomization, outcomes & estimation, validity assessment, and one limitation + one improvement. Fit-to-type justification (mandatory): explain why this study's type is the right identification strategy for the RQ - state what bias or validity threat would arise under the alternative (e.g., field → lab, within → between, etc.).
- Deadlines:**
October 25: Submit the presentation to the e-learning.
October 27: Present your findings to the class.

Evaluation:

Both the presentation skills and content matter. The content will weigh 50% in the grade, while the oral part of the presentation will weigh 50%.

Final Exam (50%)

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 50% of the final grade.

Project (20%)

Conduct an Experiment

- **Description:** Conduct an experiment designed to test a specific behavioral phenomenon or to evaluate a potential intervention mitigating a behavioral bias. Your work should be presented in a structured presentation that includes: theoretical background, research question and hypotheses, explanations of the design, and—where appropriate—tables and charts. You may draw on an established concept from the existing literature or propose a novel idea. The task involves formulating your own experimental design or survey to test the phenomenon. Data collection may be conducted in the classroom setting or online. The project can be carried out individually or in pairs (two-member groups only).
- **Deadlines:**
 - November 20:** Submit the presentation to the e-learning.
 - December 4:** Present your research and findings to the class.

Evaluation:

Both the presentation skills and content matter. The content (including the quality of the experiment & written presentation) will weigh 50% in the grade, while the oral part of the presentation will weigh 50%.

RETAKE POLICY

Retake covers the final exam (50%). Group work and quizzes cannot be rewritten / retaken but their evaluation (if positive) is not annulled.

MAIN READING LIST

- Cartwright, E.; Behavioral economics. Routledge, 4th Edition: 2024.
- 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*.
- Frederick, S., Loewenstein, G. and O'Donoghue, T. (2002), Time discounting and time preferences: A critical review. *Journal of Economic Literature*, 40(2), 351-401
- Jakab, Spencer. 2019. Making Monkeys Out of the Sohn Investing Gurus. *The Wall Street Journal*.
- 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*.
- Levine, Matt. 2019. Good Investors Make Investing Harder. *Bloomberg*.
- 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.

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

ADDITIONAL READING LIST

Becker, G. S. and K. M. Murphy (1988). "A theory of rational addiction." *Journal of Political Economy* 96(4): 675-700

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

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

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

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

Weimann, J., Brosig-Koch, J. (2019). *Methods in Experimental Economics*, Springer 10.1007/978-3-319-93363-4

DEGREE LEVEL LEARNING OBJECTIVES

Learning objectives for Master of Social Science

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 .