AEM 4140: Behavioral Economics and Managerial Decisions

Cornell University
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Contact

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Lecture Information

Lecture Times: Mondays 10:10 – 11:25AM or 11:40-12:55PM
Lab Sections take place at the same time on Wednesdays
Class Webpage: Canvas

Course Description

Behavioral economics integrates psychology and economics by identifying systematic anomalies in decision making. These are now recognized to be an important source of error in business decisions, and they provide the foundation for both behavioral marketing and finance. The course compares rational choice theory with behavior both in lecture and through a series of economics experiments in which students face situations that are likely to lead to anomalies such as the status quo bias, hyperbolic discounting, and bias in assessing risks.

Lectures will cover a range of problems identified by psychologists and behavioral economists. Students will have an opportunity to gain experience through weekly laboratory simulations of decisions where managers tend to make systematic errors. The laboratory fee is $40, but all the money collected will be returned to the class as individual earnings in the simulations.

Grading

Exam	40%
Group Project and Presentation:	60%

Exam. If you cannot take the exam during the scheduled time, you must let me know in advance so that a makeup can be arranged. Once the exam has been given, I will be unable to make arrangements for a makeup. The exam is scheduled for **March 18**.

You will be allowed one page of notes that you can use during exams. This resource must be a single sheet of standard printer paper (8.5 by 11 inches), you can write on the front and back, and you can write anything that you think would be useful for your reference during the exam. You may not use calculators on the exam.

Group Project and Presentation. A group project will give you an opportunity to analyze a previous business failure through the lens of behavioral economics. Each group should consist of four or five students, and you are responsible for constructing your own group and managing its division of labor. Please upload the names of your group members on Canvas by **February 9th**. If you do not submit your group by this date, we will randomly assign you to a group with others. You may only join a group with others who are in the same lecture/lab time. If you submit a requested group with less than four students, we will do our best to keep you in that requested group as we add others to reach at least four students.

You may select any real previous business failure as long as another group has not already reserved it. Some examples that have been researched for the course are Enron, Worldcom, and Blockbuster. The goal is to offer explanations for a business failure using terms we have examined in behavioral economics. Additional details about the project will be provided in class.

By **March 1st**, please submit the topic of the business failure you would like to work on through Canvas. Provided that no one else in the same lecture time has already reserved it and it is appropriate, it will be approved.

During one of your final three lab sections, your group will present an initial version of your report. This presentation will be graded on a check plus, check, and check minus scale and will be worth 5% of the total group project grade. The final written report should be a between 16 and 20 double-spaced pages (excluding appendices and references). The due date for this final report will be announced in class and due at some point during the final exam schedule, so that you can consider any of the comments you receive from the presentation.

Laboratory. Each Wednesday, you will participate in laboratory simulations and will have the chance to win or lose real money based on your decisions. To ensure these simulations are able to be completed, there are several rules that you must follow during laboratory sessions.

First, each student must bring a laptop that can access the internet and has enough battery to be in use for the entire lab session. Second, the only program open on your computer should be a browser tab with the simulation that is being run during that session. That is, you should not have other work or another program open while you are participating in a lab session. Third, all of your other work and phones (as well as other devices) should be put away until the simulation is over. Fourth, you must remain silent throughout the session unless otherwise stated. Fifth, you must be physically present in the classroom to take part in the simulation. That is, you cannot participate remotely. Finally, you must arrive on time in order to participate.

If you have a question about the simulation, then you should raise your hand to get the attention of the teaching assistant.

If these rules are not followed, then you may not receive participation credit for that laboratory session. Furthermore, you may face a grade penalty on your final grade due to classroom misconduct. These rules are intended to minimize any distractions you might face throughout the session.

Participating in and understanding the outcomes of these laboratory sessions are important learning outcomes for the course. Hence, you will only be able to miss at most two laboratory meetings before points will be deducted from your final grade. You do not need to contact me or a teaching assistant if you are missing a session; we will internally keep track of this and allow two free absences before your grade is impacted.

Dyson Grading Policy. Dyson faculty policy mandates that grades reflect a range of outcomes distinguishing between failing, poor, good, and excellent performance. The latter category is awarded an A grade and is considered the top mark in this course. The grade of A+ is awarded only for extraordinary achievement far above the mean and will in no case make up more than 5% of total final grades.

Grade Appeals. If you wish to appeal your grade on an assignment, you must bring it to my attention, in writing, within 48 of when the assignment is returned. I reserve the right to regrade the entire assignment and the new grade will be final.

Additional Important Comments. You must abide by the Cornell Code of Academic Integrity throughout the course. If you ever have any doubts about what this entails, I encourage you to contact me. Any work you submit must be your own or your fair share of a team project.

I will be as lenient as possible with any extensions, but you must ask for them if you need it.

Finally, you may not use or consult materials from previous years of the course unless I explicitly give them to you.

Tentative Course Outline
It is possible that several of the below dates may change, and certain topics may be omitted or added. Please find the latest version of the schedule on the course website.

Class Number	Class Date	Topic
1	M 1/22	Overview of the Behavioral Approach
2	M 1/29	Heuristics and Biases I
3	M 2/5	Heuristics and Biases II
4	M 2/12	Auctions
5	M 2/19	Kindness and Cooperation
	M 2/26	No Class
6	M 3/4	Decisions Over Time
7	M 3/11	Decisions Over Risk
8	M 3/18	Exam
9	M 3/25	Neuroeconomics
	M 4/1	No Class
10	M 4/8	Applications to Marketing I
11	M 4/15	Applications to Marketing II
12	M 4/22	Applications to Finance I
13	M 4/29	Applications to Finance II
14	M 5/6	Wrap Up
Written Project Report Due (Date Announced in Class)		