

Course Description

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Behavioral economics couples scientific research on the psychology of decision making with economic theory to better understand what motivates financial decisions. In **A Beginner's Guide to Irrational Behavior**, you will learn about some of the many ways in which we behave in less than rational ways, and how we might



overcome our shortcomings. You'll also learn about cases where our irrationalities work in our favor, and how we can harness these human tendencies to make better decisions.

This course will be based heavily on my own research, and largely pulls from my three books: [Predictably Irrational](#) (2008), [The Upside of Irrationality](#) (2010), and [The Honest Truth About Dishonesty](#) (2012). You can get all three in an e-book bundle, discounted until the day after class starts (March 26th) through [Kindle](#), [Nook](#), [iBookstore](#), [Kobo](#), or [Google](#). You can still buy it after the first week of class starts, but you will not get the discount. And although you are (of course) not required to purchase my books, I think you will find them useful.

This class has two main goals:

1. Introduce you to the range of cases where people (consumers, investors, managers, friends, significant others, and even you) make decisions that are inconsistent with standard economic theory and the assumptions of rational decision making. This is the lens of behavioral economics.
2. Help you think creatively about the applications of behavioral economics to the development of new products, technologies and public policy, and to understand how business and social policy strategies could be modified with a deeper understanding of the effects these principles have on all of us.

We will examine topics such as our “irrational” patterns of thinking about money and investments, how expectations shape perception, economic and psychological analyses of dishonesty by honest people, how social and financial incentives work together (or against each other) in labor, how self-control comes into play with decision making, and how emotion (rather than cognition) can have a large impact on economic decisions.

Week	Topic	Description
	Introduction to	Background and General Introduction to the class and the field

Precourse	Behavioral Economics	of behavioral economics
Week 1	Irrationality	Visual and Decision Illusions, Defaults, Preferences, Choice Sets, Coherent Arbitrariness, and Learning from our Mistakes
Week 2	Psychology of Money	Opportunity Cost, Relativity, Pain of Paying, Mental Accounting, Fairness and Reciprocity, Loss Aversion, The Endowment Effect, Market versus Social Norms, FREE, and Micro-payments
Week 3	Dishonesty	The Simple Model of Rational Crime, Shrinking and Expanding the Fudge Factor, Conflicts of Interest, and Cheating Over Time and Across Cultures
Week 4	Labor and Motivation	Extrinsic versus Intrinsic Motivation, Meaning, Acknowledgement, the IKEA Effect, the Not-Invented-Here Bias, Cognitive Dissonance, High Stress and Performance, and Big Bonuses
Week 5	Self-control	Problems with Self-control, Reward Substitution, Ulysses Contracts, and The Individual and the Environment
Week 6	Emotion	Two Systems, Intra-empathy Mismatch, The Identifiable Victim Effect, Emotional Decision Making, and Risk Assessment
Postcourse	Applications	Applications of Behavioral Economics to the Real World

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