

MBA 678: Behavioral Economics and Decision-making

Dr. Vipul Bhatt

SP 2022

Contact Information

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Course Information

- Location (online): Zoom through Canvas
- Meeting Times: Table below provides the course schedule.

03/23/2022	Wednesday (7:00-9:30PM)	Zoom
03/30/2022	Wednesday (7:00-9:30PM)	Zoom
04/06/2022	Wednesday (7:00-9:30PM)	Zoom
04/13/2022	Wednesday (7:00-9:30PM)	Zoom
04/20/2022	Wednesday (7:00-9:30PM)	Zoom
04/27/2022	Wednesday (7:00-9:30PM)	Zoom
05/04/2022	Wednesday (7:00-9:30PM)	Zoom Final Group Project Presentations
05/14/2022	Saturday (No-class)	Final Group Project Due on Canvas

Contact the Instructor

The best way to reach me is via email. I will do my best to respond to e-mail within 24 hours on a weekday, 48 hours on a weekend.

- All questions should be posted to bhattvx@jmu.edu.
- Online office hours will be conducted via Zoom.
- Email appointments can be made on any days of the week, Monday through Friday, preferably between 9:00AM-5:00PM.
- I will periodically send messages to your JMU email address regarding the class. Please make sure you check this account regularly.

Course Description and Objectives

Behavioral economics combines psychological insights and economic theory to better explain choices of individuals across different domains of decision-making. Standard economic models assume self-interested, unbiased, and rational decision-makers. These agents are also assumed to have unlimited cognitive capacity that allows them to seamlessly incorporate all available information in their decisions and also update their beliefs adequately when faced with new information. In reality, individuals exhibit various cognitive biases and often use heuristics to make choices. Moreover, their capacity to process available information is often limited and the treatment of new information is far from adequate in their decision-making. The salience of these behavioral issues becomes most apparent when dealing with uncertain situations, facing a trade-off between present and future well being, or incorporating others in our decision-making process. As a result the observed behavior of managers and consumers deviate substantially from the predictions of the standard economic model.

In this course we will learn about these cognitive biases and the role played by heuristics in decision-making. Our main objective is to understand how people actually make decisions in a complex and dynamic economic environment. We will focus on two main implications of behavioral decision-making for businesses:

1. How managers can incorporate behavioral insights into various dimensions of their business such as marketing, operations, and investment strategies? Here we will focus on the use of behavioral economics to increase revenues, improve worker motivation, and mitigate various kinds of risks a business may face in a dynamic environment.
2. What kind of interventions managers and policymakers can design to improve outcomes of their stakeholders who may not always act in their best interest? Here we will discuss policy designs that range from hard paternalism to libertarian paternalism, all with the sole objective of improving choices of real world decision-makers who may have cognitive biases and who often have access to limited information.

Readings

Three main sources:

1. Lecture Slides: I have compiled these notes myself from various sources and these notes will not follow any particular textbook. Before every class I will post the powerpoints on Canvas under Files/Powerpoints.
2. We will be using several published journal articles and other sources during the semester. These readings will be posted on Canvas under Files/Readings.
3. Two cases need to be purchased from the Harvard Business Review (see the section on case studies below for details):

Tentative Course Outline

Week	Content and Readings
	<p>Topic 1: Econs vs Behaviorals</p> <ul style="list-style-type: none"> • Rationality in Economics and its implications • Bounded Rationality and Heuristics • Common Cognitive Biases • Uncertainty, present bias, and other-regarding preferences <p>Readings:</p> <ul style="list-style-type: none"> • Lecture Slides • Readings posted on Canvas
	<p>Topic 2: Choice Architecture</p> <ul style="list-style-type: none"> • Freewill and marketplace • Defaults • Choice overload • Ethics of choice architecture: libertarian paternalism <p>Readings:</p> <ul style="list-style-type: none"> • Lecture Slides • Readings posted on Canvas
	<p>Topic 3: Motivation crowding</p> <ul style="list-style-type: none"> • Intrinsic vs Extrinsic Motivation • Role of incentives <p>Readings:</p> <ul style="list-style-type: none"> • Lecture Slides • Readings posted on Canvas
	<p>Topic 4: Intuition and Expertise</p> <ul style="list-style-type: none"> • Why intuitions could be misleading? • Expertise based intuition <p>Readings:</p> <ul style="list-style-type: none"> • Lecture Slides • Readings posted on Canvas
	<p>Topic 5: Business Ethics and Improving Decisions</p> <ul style="list-style-type: none"> • Bounds on ethical behavior • Improving decisions by de-biasing <p>Readings:</p> <ul style="list-style-type: none"> • Lecture Slides • Readings posted on Canvas

Methods of Evaluation

Max available points: 500 points

Assessment items and their relative contribution to overall points

- Participation and attendance: 30 points
- Reflection essays (2): 100 points
- Case Studies (2): 160 points
- Final Research Project:
 - Proposal: 10 points
 - Write-up: 150 points
 - Presentation: 50 points

Grading Scale

A	>90	Excellent	4.0
A-	85-90		3.7
B+	80-85	Very Good	3.3
B	70-80	Good	3.0
B-	60-70		2.7
C	50-60	Poor	2.0
F	<50	Failure	0.0

Participation & Attendance

Attendance, promptness, and class participation are required and will be considered when calculating your final grades. Your semester-long in-class participation grade is 6% of your overall grade (30 points), based upon our perception of your preparedness and feedback in class. Full participation includes submitting good questions and comments during class as well as answering questions when called upon. You can prepare for answering questions by doing the assigned readings and homework between classes. Everyone starts with a zero.

Participation grades are assigned on the scale given below. Note, *frequent* contributors pose questions independently and are prepared to answer questions when called upon. *Well-prepared* contributors rarely pose questions, but are well prepared when called upon. *Infrequent* contributors might participate only rarely, or seem ill-prepared when called upon. *Almost never* implies you were rarely prepared, and almost never had anything to contribute, or you were disruptive. NOTE: attendance does NOT constitute participation, and courteousness to your classmates is also considered in your grade.

If you anticipate missing a class where no exam is being held, you can be excused with a valid explanation. After your first unexcused absence, you will lose points off of your participation grade based on the table below. [Note: You can also receive participation credit for the missed class by submitting a one page summary of that lecture, after you have watched the video lecture you missed. You can submit this summary via email.]

Absences	Participation			
	Frequently	Well-prepared	Infrequently	Almost Never
0	30	27	24	21
1	27	24	21	18
2	24	21	18	15
3	21	18	15	12
>3	0	0	0	0

Reflection Essays

During the semester you will be writing two reflection essays, each essay contributing 10% (50 points) towards your final grade which means this assessment item is worth a total of 20% (100 points). Try to keep your essay close to 1500 words. Although I do not strictly enforce this limit in the past student appreciated having a benchmark in terms of my expectations for the length of this assignment. Below are some pointers that should help you in understanding this assignment.

A. Your first essay is based on your choice between topics 2 and 3. Once you have made your choice, your essay should cover all readings for that particular topic. For example, suppose you choose to write your first essay on Topic 3. Then, your essay must include your reflections on all the reading material covered in that topic.

B. Your second essay is based on your choice between topics 4 and 5. Again, once you have made your choice your essay should cover all readings for that particular topic.

C. Note that some topics may have more readings than others, but try not to base your decision on that. The nature of this assignment is such that if you are not very interested in your chosen topic then the quality of your essay will be adversely affected. The emphasis of this assignment is on your learning experience and reaction to the posted readings. Hence, it will be graded on thoughtfulness and quality of your write-up.

D. You should hit the following points in your essay:

1. A brief summary of the main issues covered in the readings. Here try to show that you have actually read these readings without getting too much into the weeds for each assigned paper.
2. What did you learn from these readings? If any application or example captured your interest you can elaborate on that here.
3. How did this learning affect your understanding of the decision-making process in general and in your area of interest in particular?

Reflection		
Reflection Essay 1	Due on April 8 th 2022 (10:00PM)	Canvas
Reflection Essay 2	Due on April 29 th 2022 (10:00PM)	Canvas

Case Studies

You will each individually be required to do two case study analyses. Each case study contributes 16% (80 points) to your final grade implying the total contribution of this

assessment item is 32% (160 points). On the HBR webpage below you will find three cases in the course-pack:

<https://hbsp.harvard.edu/import/921359>

Note that you only need to purchase 2 cases of your choice from this course-pack. Each case provides a short blurb. Please read the details of each case carefully before making your choice. You must inform me about your two choices latest by **March 31st 2022**.

Your written case study analyses must describe the case background, pose major questions, identify weakness or issues in the case, and provide a behavioral analysis. Incorporate course discussions or materials to support your analysis. Proofread your analyses, and submit them on Canvas in PDF format. For each case I will provide you with detailed instruction on Canvas and depending on your choice you may refer to this document for guidance.

Cases		
Case 1	Due on April 15 th 2022 (10:00PM)	Canvas
Case 2	Due on April 22 th 2022 (10:00PM)	Canvas

Final Project

Your final research project is a group project and oral presentation. Students are expected to form a self-selected group of 4-5 students. I will be posting detailed instructions for this project and your presentation on Canvas. Below I provide a brief description of this project. Note that this project has 3 parts and they contribute a total of 42% (210 points) towards your final grade.

In this project you are expected to apply behavioral insights to a managerial problem of your choice. You will identify a decision-making problem at a particular organization, provide some background on why this is an important problem, and propose a behavioral intervention that can be used to solve this problem. Your analysis should highlight behavioral biases/issues that are pertinent to the identified managerial problem and argue how the proposed solution can incorporate these behavioral issues. For example, you may want to address the issue of boosting worker motivation in a large firm in the U.S. A behavioral intervention to address this problem could be providing regular feedback to workers about their contributions to the overall mission of the organization and share anonymized performance data with all workers.

In your write-up make a compelling argument with the objective of convincing the senior management that they should implement this proposal. To this end it is important to describe the managerial structure of your chosen organization, clearly define the issue to be addressed, describe the intervention and rationalize it using the review of relevant literature, and finally provide a metric which can be used to evaluate the effectiveness of the proposed intervention. Proofread your papers/analyses, and submit them on Canvas in PDF format.

Table below provides important deadlines related to this assignment:

Final		
Proposal	April 2 nd 2022 (10:00PM)	Canvas
Oral Presentation	May 4 th 2022	Zoom Class Session
Write-up	May 14 th 2022 (10:00PM)	Canvas

Use of Canvas

Materials pertaining to the course such as important announcements, lecture slides etc will be posted on Canvas. It is your responsibility to keep a track of such announcements and postings on Canvas at\

<https://canvas.jmu.edu/>

You should check Canvas at least twice per week to stay abreast of the course.

Inclement Weather Policy

Classes will be held unless canceled by the JMU administration for reasons of bad weather, bomb threats, or fire alarms.

JMU Honor Code Policy

All students are expected to be aware of and adhere to the JMU Honor Code. Students will be expected to be academically honest and properly credit all source materials used. For the official documentation on the honor code policy see:\

<http://www.jmu.edu/syllabus/#Honesty>

Other University policies

To read about JMU's policy regarding Adding/Dropping Courses Disability Accommodations, and Religious Observation Accommodations, please see:

<http://www.jmu.edu/syllabus>