

BEHAVIORAL ECONOMICS & DECISION MAKING
Professor Eric J. Johnson

B8619 SPRING 2023
MBA SYLLABUS DRAFT, SUBJECT TO CHANGE

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Teaching Assistant:

Office Hours: Wednesdays 1:40-3:00 and by appointment.

Office hours will not be held on the following dates: TBA

◆◆◆ WHAT YOU NEED TO KNOW ◆◆◆

Below is a list of the **most important things for the class** (grading outline, course requirements, and required reading materials). If you email me or ask me a question about something that is answered in this section, I will refer you to the syllabus (and judge you harshly). For details on any of the points below, please consult the remainder of the syllabus. Due dates are listed in the Course Roadmap at the end of the syllabus.

1. **Before coming to the first class on January 26**, please do the **pre-class survey** (the link is provided on the course homepage in Canvas, and under Assignments, but no upload is needed). The survey will count towards your participation grade, so even if you join the class late, please complete it!
2. **Two textbooks are required** for the course: (1) *Thinking, Fast and Slow* by Daniel Kahneman, (2) *Misbehaving: The Making of Behavioral Economics* by Richard Thaler.
Please note: readings from *Thinking* and *Misbehaving* will **not** be reproduced online due to copyright restrictions.
3. The **readings for each lecture** are listed in the roadmap (at the end of this document). These **readings must be done BEFORE the start of class**. The readings for each topic are required and considered part of your preparation for that lecture. **This means that readings for days that cases are due will be helpful for your preparation of that case.**

4. **Participation is 25% of your grade.** 10% determined by class attendance, and 15% determined by in-class engagement and participation in the out-of-class exercises.
 - a. **To track attendance and maximize participation, we will use PollEverywhere.** Please set-up your account and make sure you can access the app before attending the first class.
 - b. Aligned with Core culture, **students who miss more than 33% of classes (unexcused absences) will receive a maximum course grade of P. Students who miss more than 50% of classes (unexcused absences) will receive an F in the course.**
5. **Written assignments are 40% of your grade.** There will be seven assignments total and **you have to complete six** of them (if you do all seven, I will drop your lowest score for one of your assignments and give you a bonus point).
 - a. All written assignments will be case-based. Please see the formatting guidelines before writing your first assignment.
6. A **final exam will be 35% of your grade.** The final exam will be 90 minutes. I will arrange a take home, but time-limited exam, that will be available on-line.
 - a. By 11:59pm on Thursday, April 6, **everyone must submit two exam questions** suitable for use in an all-essay, in-class exam. Completion of these questions goes towards your participation grade. A subset of these questions will be compiled and posted on Canvas by the end of day, Thursday, April 13. Expect to receive a list of approximately 20 potential exam questions. The final will consist of a subset of these questions with some choice, e.g., answer 4 of these 6 questions.
 - b. A **review session** may be scheduled. If held, the review session will be recorded and posted online for students who cannot attend.
 - c. **Students who miss the exam (excused) and do not make it up during the stated make-up period will receive a zero for final exam grade. Students who miss the exam without notifying OSA or me (unexcused) will receive an F in the course.**

◆◆◆ COURSE OBJECTIVES ◆◆◆

The purpose of this course is to inform future managers, analysts, consultants, and advisors of the psychological processes and biases underlying decision-making, with an emphasis on how to incorporate such insights into marketing and business strategies.

The class has two main facets. First, it will give you a broad overview of important results from various behavioral sciences that clarify how people make decisions. Second, it will provide you with advice about applying these findings to topics in marketing, management, and finance (each the focus of approximately one-third of the class material). Classroom time will be devoted to a combination of lectures, discussions, and exercises illustrating the main concepts.

The first half of the class will be more theory focused to build the foundations that we need to move into a discussion of applications (the second half of the class).

◆◆◆ CLASSROOM CULTURE ◆◆◆

This course adheres to Columbia Course Culture. This means we will all be:

Present

- On time and present for the entire session
- Attendance tracked

Prepared

- Complete pre-work needed, expect cold calling
- Bring nameplates and necessary course material

Participating

- Constructive participation expected and part of grade
- No electronic devices except CBS iPads and only for educational purposes. When allowed, should be directive, active, and specific with use.

The purpose of Columbia Core Culture is to promote the values of a consistent classroom environment of mutual respect, preparation and engagement in core and elective courses.

Use of electronic devices

- Electronic devices are used only for educational purposes during class time. Unless instructed by faculty, the use of cellphones, laptops, tablet computers (other than the CBS- provided tablet) or other devices are generally not permitted during in-person classes.
- Students are generally permitted to use CBS-provided tablets to respond to in-class polling, access course materials and take notes in class. Faculty may also permit laptop computers to be used for in-class work that requires computer software (e.g., analysis of data in Excel).
- For those students who have been approved to attend classes remotely, please review

◆◆◆ FORMAT ◆◆◆

This class is intended to be intellectually stimulating and challenging. I value class participation and the application of the ideas and theories that will be presented. Student engagement and interaction is my favorite part of teaching, so I hope to see buy-in from everyone in the classroom.

I will distribute copies of all slides and handouts using the CBS-provided tablets

◆◆◆ MATERIALS ◆◆◆

There are two required books for this course:

1. *Thinking, Fast and Slow* by Daniel Kahneman (referred to as “Thinking” hereafter)
2. *Misbehaving: The Making of Behavioral Economics* by Richard H. Thaler (referred to as “Misbehaving” hereafter)

All other readings will be available online through Canvas. The location of the readings is specified in the Course Roadmap below.

Please note: readings from *Thinking* and *Misbehaving* will **not** be reproduced online due to copyright restrictions, except for those required for the first week.

The readings in the course packet and listed in the syllabus are required material that should be **read before class. Cases listed in the syllabus should always be prepared before class.**

◆◆◆ EVALUATION ◆◆◆

1. **Participation (25%).** In a course like this, the adage “garbage-in-garbage-out” is especially true. You will only get out of this course as much as you are willing to put in, and lively class discussion is essential for learning this material. It is therefore very important that you take an active role in classroom activities and discussions and come fully prepared. If you are distracting from the class or contributing in an inappropriate/irrelevant manner, you will not receive participation credit for such comments (in fact, you could end up receiving negative points!).

The class participation grade will be determined by:

- **Class attendance** (10%)
- **Constructive, respectful, and meaningful** participation in-class and completion of out-of-class exercises (pre-class survey, final exam question submission) (15%)

Students who miss 33% of classes (unexcused absences) will receive a maximum grade of P in the course. Students who miss 50%+ of classes (unexcused absences) will receive an F in the course.

2. **Writing Assignments (40%).** To reinforce the learning process, you are required to do six written case assignments to receive a passing grade for the course. You may also do a seventh assignment. If you do a seventh assignment, I will drop the lowest score and I will give you one extra credit point. Of the writing assignments listed in the course roadmap, you can choose which six you would like to turn in.

Assignments should be done on an individual basis. You may discuss the case and assignment with other students in the class, but **each person must submit their own paper with original work**. The writing assignments should be contextualized in the case at hand and should draw on information from the readings and lectures to support your analysis.

All of the writing assignments will be case-based and **must be turned in prior to the start of class**, since we will be discussing and analyzing the case together in class. **Late assignments will not be accepted** and any cases submitted after five minutes into class will not be graded.

Here are some **general guidelines** for preparing effective write-ups:

1. Be concise and to the point. Provide a strong, logical flow in your analysis. Above all, do not spend time rehashing or paraphrasing the details of the case, as I have read the cases and know these details already.
2. Make your assumptions explicit whenever necessary and defend them.
3. Your analysis should be thorough, be carried out correctly, and should draw whenever relevant on material presented in class or assigned in the readings.
4. Focus any specific recommendations on the important issues in the case. Recommendations should be practical, cost-effective, and appropriate to the timing (short-term or long-term) of the problem at hand.

Formatting requirements:

Writing assignments have a **strict four-page limit but brevity when accompanied by completeness will be rewarded**. All papers should be **double-spaced** with 1" margins and **12-point font**. Please write a cohesive paper (do not submit numbered or bulleted lists summarizing your thoughts). **Failure to follow formatting guidelines will result in a one-point reduction**. Please submit assignments using Canvas.

3. **Final Exam (35%).** The final exam is composed by the students. By Thursday, April 5th, everyone must submit two exam questions via Canvas suitable for use in an all-essay, in-class exam. The submission of these questions counts towards your participation grade. The best of these questions will be compiled and posted on Canvas by the end of the day Thursday April 12th. Expect to receive an initial list of approximately 20 potential exam questions. The final exam will consist of six of these questions and you will have to answer four of them. **The exam will be 90 minutes and will be held as a take home exam (Starting Wednesday, April 20th).**

◆◆◆ GRADING SYSTEM ◆◆◆

All case assignments will be graded by the TA using a five-point system. All grading will be done blindly. The grades can be interpreted as follows:

1-2	Incomplete assignment. Some questions are not addressed and/or little evidence of reading.
3	Some evidence of reading, but little understanding of the psychology or how it works. Minimal application of course concepts to the actual question that was asked.
4	An attempt at applying the course material, but with little or no depth of analysis (possibly just repeating ideas from the reading).
5	A solid application of the course material, with some good points but few creative insights. The majority of papers will receive this grade.
6	A deeper level of thinking than the obvious answer. Clearly written with creative examples.
7	An exceptional paper with an original insight and clear analysis. Such papers make us say, "I wish I had thought of that!" Very few of these grades are given.

The final exam will be out of 40 points and will be graded blindly. Graded exams will not be returned unless specifically requested by the student (though individual grades and a histogram of the grades for each section will be posted on Canvas).

◆◆◆ COURSE ROADMAP ◆◆◆

WEEK 1 <i>Thursday, January 26, 2023</i>	
Your Two Brains: Econs vs. Humans	
Readings	▪ Thinking, Ch. 1 , Ch. 2 (online)
To-Do	▪ Complete the pre-class survey BEFORE the start of class
Loss Aversion: Why Losses Have More Impact Than Gains	
Readings	▪ Thinking Ch. 26 , Ch. 27 (online)

WEEK 2 <i>Thursday February 2, 2023</i>	
Perception of Risks: The Use of Heuristics (Part 1)	
Readings	▪ Thinking, Ch. 10, 11, 12 ▪ The Signal and the Noise (Nate Silver), pp. 240-249 (online)
Perception of Risks: The Use of Heuristics (Part 2)	
Readings	▪ See above

WEEK 3 <i>Thursday February 9, 2023</i>	
Confidence & Consistency	
Readings	▪ Thinking, Ch. 19
Mental Accounting	
Readings	▪ Misbehaving, Ch. 7, 10 ▪ JC Penney Case (online)
To-Do	▪ Read the JC Penney Case before class ▪ Submit writing assignment before class

WEEK 4 <i>Thursday, February 16, 2023</i>	
Perceptions of Fairness	
Readings	▪ Misbehaving, Ch. 14 ▪ Coca-Cola's New Vending Machine (A) Case (online)
Impatience and Self-Control	
Readings	▪ Misbehaving, pp.85-94

WEEK 5 <i>Thursday, February 23, 2023</i>	
(1) Choosing and (2) Helping Consumers with Risk	
Readings	<ul style="list-style-type: none"> ▪ Predictably Irrational (Dan Ariely), Ch. 1 (online) ▪ Toro No S'no Case (online)
To-Do	<ul style="list-style-type: none"> ▪ Read the Toro No S'no Case before class ▪ Submit case writing assignment before class
Memory & Decisions	
Readings	<ul style="list-style-type: none"> ▪ Thinking, Ch. 4 and 5

WEEK 6 <i>Thursday, March 2, 2023</i>	
Emotion, Affect, and Consumer Choice	
Readings	<ul style="list-style-type: none"> ▪ Thinking, pp. 101-104 ▪ Cialdini (2001): Harnessing the Science of Persuasion (HBR) (online) ▪ Selling CFLs at Wal-Mart Case (reader, online) Part 1: https://www8.gsb.columbia.edu/caseworks/EricJohnson/1eda0 Part 2: https://www8.gsb.columbia.edu/caseworks/EricJohnson/1eda1
To-Do	<ul style="list-style-type: none"> ▪ Read the Selling CFLs at Wal-Mart Case before class ▪ Submit case writing assignment before class

WEEK 7 <i>Tuesda March 1, 2023</i>	
Application to Organizations Making Decisions (Part 1)	
Readings	<ul style="list-style-type: none"> ▪ Thinking, Ch.23 and 24
Application to Organizations Making Decisions (Part 2)	
Readings	<ul style="list-style-type: none"> ▪ Jon Krakauer (1996): Into Thin Air Case <i>Outside Magazine</i> (online)
To-Do	<ul style="list-style-type: none"> ▪ Read the Into Thin Air article ▪ Submit the writing assignment before class

WEEK 8 <i>Thursday, March 23, 2023</i>	
Consumer Financial Decision-Making	
Readings	<ul style="list-style-type: none"> ▪ Misbehaving, Ch. 21

	▪ Guest Speaker (TBA)
	▪

WEEK 9 <i>Thursday, March 30, 2023</i>	
Experts vs. Novices (Part 1)	
Readings	▪ Thinking, Ch. 21, 22
Experts vs. Novices (Part 2)	
Readings	▪ Google Prediction Markets (GPM) Case (online)
To-Do	▪ Read GPM Case ▪ Submit writing assignment before class

WEEK 10 <i>Thursday, April 6, 2023</i>	
Defaults and Choice Architecture (Part 1)	
Readings	▪ Elements of Choice Chapter 1 (online), Misbehaving, Chapter 32
Defaults and Choice Architecture (Part 2)	
Readings	▪ Behavioral Insights (A) Case (online)
To-Do	▪ Read Behavioral Insights (A) Case ▪ Submit writing assignment before class ▪ Submit two final exam questions

WEEK 11 <i>Thursday, April 13, 2023</i>	
Happiness (Part 1)	
Readings	▪ Thinking, Ch. 35, 37 and 38
Happiness (Part 2)	
Readings	▪ See above

WEEK 12 <i>Thursday, April 20, 2023</i>	
Behavioral Game Theory: How People Really Think Strategically	
Readings	▪ Misbehaving, Ch.15, pp. 301-305
Guest Speaker: TBA	

WEEK 13 <i>Thursday, April 27, 2023</i>	
Course Wrap and Review	
Readings	▪ Misbehaving, Conclusion (pp.347-358)

◆◆◆ WRITING ASSIGNMENT QUESTIONS ◆◆◆

Below are the questions/topics you will be asked to respond to for the writing assignments listed in the Course Roadmap.

1. JC Penney

- a. Using principles from mental accounting, explain why Johnson's pricing strategy may not have worked as intended.
- b. Do you think the pricing problem was a strategy or execution problem? Did Johnson just need more time?
- c. If you were hired to replace Ullman (as Johnson was), what would be your plan for pricing? If you had to switch from a high-low format, what would you do differently from Johnson? Would you do anything the same?

2. Coca-Cola Vending Machine (A)

- a. What did Coca-Cola do right? What did it do wrong?
- b. What do you think of Ivester's comments? What would you have said if you were Ivester?
- c. Using principles of mental accounting, how would you introduce a paradigm shift or increase the price?
- d. How would you change the public's perceptions of fairness/ethicality related to Coca-Cola's potential decision to introduce dynamic-pricing vending machines?

3. Toro S'no Risk Program

- a. The Toro No S'no case raises issues that involve many of the concepts we have studied during the course. Write a memo to Pollick giving him some insights on what Toro should do the following year and why.

4. Selling CFLs at Wal-Mart Case

- a. Why does Wal-Mart care about CFLs? Why do consumers care about CFLs?
- b. What is the diagnosis? Why has public reception been so lousy? You should be able to tie in several concepts we have discussed already.
- c. Identify potential solutions for the problems/issues you identify in the preceding question. In other words, how could the problems be addressed or overcome?
- d. What about LED bulbs? Will they face the same problems?

5. Into Thin Air Article

- a. Why are the climbers up there? Consider the motivation and incentives facing each participant. What are the implications for potential decision biases and corrective measures?

- b. What are the defining characteristics of the decision-making environment on Mt. Everest? Setting aside the extreme physiological conditions, what are the biggest challenges for good decision-making?
- c. Describe the decision process used by Hall and Fischer. What mistakes did the guides or members of the climbing teams make during the climb to the summit? Why were these mistakes made? How do these mistakes relate to concepts we have discussed in the course so far?
- d. If you were advising a friend interested in organizing an expedition to the top of Mt. Everest (or some other large but potentially dangerous mountain), what advice would you give to him/her based on the concepts of this course?

6. Google Prediction Markets

- a. Is it a good idea to encourage all employees to trade in these markets? Should insiders and/or highly uninformed people be allowed to trade? Do they help the market or hurt it?
- b. What kind of decisions are prediction markets useful for?
- c. Will most managers welcome prediction markets within their companies? Why or why not? Will they welcome a prediction market about a project or outcome that they're responsible for?
- d. How would you get managers to use the prediction markets in their decision-making?

7. Behavioral Insights Case

- a. Do the assignment listed at the end of the case: using principles of behavioral economics, develop the best possible letter to send to delinquent taxpayers. In a postscript of no more than a couple of paragraphs, please explain the letter.

◆◆◆ OTHER RECOMMENDED READINGS ◆◆◆

- Richard H. Thaler and Cass R. Sunstein (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. New York: Penguin Group.
- James Surowiecki (2005). The Wisdom of Crowds. New York: Anchor Books.
- Michael Lewis (2004). Moneyball: The Art of Winning an Unfair Game. New York: W.W. Norton & Company.
- Jon Krakauer (1999). Into Thin Air: A Personal Account of the Mt. Everest Disaster. New York: Anchor Books.
- Nate Silver (2012). The Signal and the Noise: Why So Many Predictions Fail—but Some Don't. New York: The Penguin Press.
- Robert B. Cialdini (2006). Influence: The Psychology of Persuasion (revised edition). New York: William Morrow & Company.

- Nassim Nicholas Taleb (2010). The Black Swan: The Impact of the Highly Improbably (2nd edition). New York: Random House.
- Laszlo Bock (2015). Work Rules!: Insights from Inside Google That Will Transform How You Live and Lead. New York: Hachette Book Group.
- Michael Lewis (2017). The Undoing Project: A Friendship That Changed Our Minds. New York: W.W. Norton & Company, Inc.
- Eric J. Johnson (2021) The Elements of Choice: Why How We Decides Matters. New York: Riverhead, an imprint of Penguin-Random House.