Columbia Business School

BEHAVIORAL ECONOMICS & DECISION MAKING
Professor Elizabeth M. S. Friedman

B8619 SEC 001
SUMMER 2023

Professor: Elizabeth M. S. Friedman
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Class will meet from 9:30 am-12:30 pm and 1:30-4:30 pm eastern each day.

Teaching Assistants:
TBD

Room: TBD

Office Hours: by appointment, email me if you would like to meet

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◆◆◆ 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. 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 the first class**, please complete the **pre-class survey**. The survey will count towards your small assignments grade, so even if you join the class passed the deadline, please complete it! Please also **register for the Matterhorn simulation** (you do not need to complete the simulation, just the registration, which should take less than two minutes).

2. There is a **strict no laptop/device policy** in class, except when using your CBS-issued iPad to take notes and when participating in in-class polls (and even then, no laptops can be used for polling purposes).

   a. Students who have special permission to use a laptop during class must contact me before the first class meeting.
   b. Otherwise, if you have a laptop, it must be stored during class. **Please keep your phones in your bag, not on the table, and keep them on silent when you are in class.** This policy is to ensure better comprehension and participation, which will make the class better for everyone.

3. <u>**Two books are required**</u> for the course: (1) *Thinking, Fast and Slow* by Daniel Kahneman, (2) *Misbehaving: The Making of Behavioral Economics* by Richard Thaler. I have requested copies of both be available in the library if you do not want to purchase them.

   a. The chapters for the first day of class will be posted online to provide a grace period for purchasing the books, but it is best to purchase the book before the start of the block week. After the first session, no portion of either book will be posted online because of copyright restrictions. Other readings will be available online through the course website.

   b. While most readings will be from the books, some readings will be supplementary articles. These articles will be available on Canvas.

4. The **readings for each lecture** are listed in the course 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**.

5. <u>**Participation is 25% of your grade**</u>. This includes participation, attendance, device usage, and lateness.

   a. <u>**Attendance will be tracked via PollEverywhere**</u>. Please set-up your account and make sure you can access the app **before attending the first class**.

   b. <u>**The TAs will track lateness, participation, and device usage**</u>. Each absence, lateness, and time you use your laptop or phone in class (other than to complete PollEverywhere) will negatively affect your participation grade. Because unplanned events happen, **you may be late twice (but no more than 15 minutes late) before it affects your grade**. That said, I prefer that you attend class even if you will be late (i.e., an unexcused absence affects your grade more negatively than a lateness).

   c. 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**. If you miss two of the five days of class, you will not receive above a P. If you have an excused absence, please email the TAs and me directly.

6. <u>**Written assignments are 40% of your grade**</u>.

   a. There will be five case assignments and **you have to complete three** of them (if you do four or five, I will only count the highest three scores, plus give you a bonus point for each additional write-up). **You are expected to read all five cases, even if you do not complete a write-up.** Morning cases are due before 9:30 am and afternoon cases are due before 1:30 pm.

   b. In addition to the case assignments you must also complete the pre-class survey used for various class examples, as well as a decision-making simulation (which you will have time to do during the first day of class).

7. A <u>**final exam will be 35% of your grade**</u>. The final exam will be held <u>**on the last day of class**</u>. You will have the entire 90 minute class period to complete it.

   a. **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.**

8. Aligned with the CBS required grade distribution for electives, **no more than 50% of students will receive an H- or above**.

◆◆◆ 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 these insights into marketing and business strategies. This course will help you to improve the quality of your own judgments and decisions in both business and everyday life. People are poor intuitive statisticians, meaning that when they "just think" about situations for which some data or casual observations exist, they tend to make serious inferential errors, in turn leading to systematically biased decisions. We will study some errors that are particularly important for real world problems and look for easy-to-implement solutions.

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. Classroom time will be devoted to a combination of lectures, discussions, and exercises illustrating the main concepts.

◆◆◆ CLASSROOM CULTURE ◆◆◆

This course adheres to Columbia Core Culture. Therefore, you are expected to be present, prepared, and participating. This means:

- Being **on time and present** for every session (attendance and lateness will be tracked)
  - **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.**
- **Completing the readings and assignments before class**
- Expecting **cold-calling**
- **Participating in a meaningful way** is expected and part of your grade
- Using **electronic devices is not allowed.** Stay focused on Zoom and keep your cameras on.
- **Being respectful** of the professor and your fellow students (adhering to the Code of Conduct in the classroom)
- **Final Exams**: 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 (unexcused) will receive an F in the course.

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◆◆◆ 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 (either in a Readings folder, through the Calendar, or via the "Library Reserves" link on Canvas).

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

The readings 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!).

   - **Class attendance, arriving on-time, and keeping devices away.**

   - **Constructive, respectful, and meaningful** participation in-class. Your comments will be tracked and evaluated for quality as well as quantity.

   - **PollEV,** which will primarily be used to track attendance and foster participation during class. Most polls will be opinion-based and not have a correct answer; however, some polls may be a simple quiz or review of a previous lecture or broad topic from the reading and will have a correct answer. Your performance on the quiz polls will **not** affect your grade.

2. **Writing Assignments (40%)**

   Cases (35%): You are required to do **three** written case assignments. You may also do a fourth or fifth assignment. **If you do four or five assignments, I will count your three highest scores, and give you one extra credit point per additional assignment**. Of the case assignments listed in the course roadmap, you can choose which three you would like to turn in. **You are expected to read all five cases and come prepared to discuss them, even if you do not complete the written assignment.**

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Case write-ups are **individual assignments** and should **not** be discussed with classmates prior to submission. Collaborating and sharing ideas will be considered a violation of the honor code.

Here are some **general guidelines** for preparing effective case 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 the TAs have read the cases and know these details already. Instead, demonstrate that you understand course concepts.

2. Make your assumptions explicit whenever necessary and defend why they are reasonable.

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 on identifying the relevant course concepts that may apply in each situation. Clearly explain how the concept applies and how it may inform any recommendations you make. In many cases, **several concepts will be relevant**, and you will receive more credit for **correctly and thoroughly discussing each**.

5. 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.

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All of the written assignments **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. **Cases that will be discussed in the afternoon may be turned in during the lunch break, before the start of the afternoon session.**

Formatting requirements: Writing assignments have a **strict four-page limit**. 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 upload assignments on Canvas. **Written assignments will be graded by the TAs using a seven-point system**. 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. Correctly identifies several behavioral economic concepts. Clearly written with creative examples.
7	An exceptional paper with an original insight and clear analysis. Such papers make me say, "I wish I had thought of that!" **Very few of these grades are given**.

Smaller assignments (5%): You will receive credit for completing the pre-class survey, registering for the decision-making simulation on time, and completing the decision-making simulation. These will just be graded for completion and timeliness—your responses will not be evaluated.

3. **Final Exam (35%).** The final exam may consist of multiple choice, short answer, and/or long answer questions. **The final exam will be held on the last day of class (end of day on Friday) on Zoom with cameras on. You will have the entire 90 minute class period to complete it.**

    The final exams will not be returned unless specifically requested by the student. **If you would like to request a re-grade, you must contact me directly**. If you request a re-grade, I will grade the entire exam again, not just the disputed question(s), so it is entirely possible that your grade will go down after my review. If you have **any issues** with the grade or comments, please contact me, not the TAs.

◆◆◆ COURSE ROADMAP ◆◆◆

DAY 1
Sunday, July 30th, 2023

DAY 1 *Sunday, July 30th, 2023* **MORNING**	
Your Two Brains: Econs vs. Humans, Prospect Theory & Loss Aversion	
Readings	▪ Thinking, Chs. 1, 2, 26, 27, pps. 105, 316-321 (starting with "The Fourfold Pattern")
To-Do	▪ **Complete the pre-class survey by Tuesday August 24th at 11:59 p.m.** ▪ **Register for the Matterhorn Simulation by Tuesday August 24th at 11:59 p.m.**
Sunday, July 30th, 2023 **AFTERNOON**	
Judgments Under Uncertainty	
Readings	▪ Thinking Ch. 11

DAY 2 *Monday, July 31st, 2023* **MORNING**	
Perception of Risks: The Use of Heuristics	
Readings	▪ Thinking, pp. 97-101 (stop at "The Mood Heuristic for Happiness"); Ch. 10, 12, 14 ▪ Groopman, "What's the Trouble?" The New Yorker
Monday, July 31st, 2023 **AFTERNOON**	
Overconfidence & Confirmation Bias	
Readings	▪ Thinking, Ch. 18, 19 ▪ Moore and Morse, "Confidence Doesn't Always Boost Performance," HBR ▪ Zenger and Folkman, "Women Score Higher Than Men in Most Leadership Skills," HBR

DAY 3 *Tuesday, August 1ˢᵗ, 2023* **MORNING**		
GUEST LECTURE TBD Experts and Models		
Readings	▪	Thinking, Ch. 21, 22, 23
	▪	Toro No S'No Case (online)
To-Do	▪	**Submit Toro No S'no case assignment before class**
Tuesday, August 1ˢᵗ, 2023 **AFTERNOON**		
Mental Accounting Choice and Context Effects (Part 1)		
Readings	▪	Misbehaving, Ch. 7, 9
	▪	Predictably Irrational (Dan Ariely), Ch. 1 (online)
	▪	"Understanding and Shaping Consumer Behavior in the Next Normal," McKinsey Article (online)
	▪	JC Penney Case (online)
To-Do	▪	**Submit JC Penney Case assignment before class**

DAY 4 *Wednesday, August 2ⁿᵈ, 2023* **MORNING**		
Choice and Context Effects (Part 2) Self-Control and Impatience GUEST LECTURE TBD		
Readings	▪	Misbehaving, pp. 85-94, Ch. 12
	▪	Soll, Milkman, and Payne, "Outsmart Your Own Biases," HBR
	▪	Selling CFLs at Wal-Mart Case (online)
To-Do	▪	**Submit Selling CFLs at Wal-Mart Case assignment before class**
Wednesday, August 2ⁿᵈ, 2023 **AFTERNOON**		
GUEST LECTURE TBD Perceptions of Fairness		
Readings	▪	Misbehaving, Ch. 14
	▪	Thaler, "The Law of Supply and Demand Isn't Fair," NYT
	▪	Coca-Cola's New Vending Maching (A) Case (online)
To-Do	▪	**Submit Coca-Cola Case assignment before class**

DAY 5 *Thursday, August 3rd, 2023* **MORNING**
Choice Architecture

Readings	- Nudge, Introduction (online) - Cialdini, "Harnessing the Science of Persuasion," HBR - Gawande, "The Checklist," The New Yorker - Bakhasi and Fox, "The Best Flu Prevention Might Be Behavioral Economics," HBR - Into Thin Air case (Online)
To-Do	**Submit Into Thin Air Case assignment before class**

Thursday, August 3rd, 2023 **AFTERNOON**
GUEST LECTURE TBD **Final Exam**

◆◆◆ **WRITING ASSIGNMENT QUESTIONS** ◆◆◆

Below are the questions/topics you will be asked to respond to for each case assignment:

1. **Toro S'no Risk Program**
   a. From a general business perspective, discuss why this program is good or bad for Toro.
   b. Based on concepts from class, how do you think consumers will react to this program? Given those concepts, will this program be appealing to consumers? Why or why not?
   c. What do you recommend Toro do for next year?

2. **JC Penney**
   a. Using principles from mental accounting, explain why Johnson's pricing strategy may not have worked as intended.
   b. What biases that we discussed in class would say that Ron Johnson displayed in his decision making?
   c. Do you believe that Penney's new pricing strategy was a viable one? Were the problems due to strategy or execution? Did Johnson just need more time?
   d. 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 pricing strategy, what would you do differently from Johnson? Would you do anything the same?

3. **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?

4. **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?

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 processes 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?

Matterhorn Simulation:

In this simulation, you will play the role of a manager of Matterhorn Health, a medical device manufacturer. Please note that the simulation is multimedia-rich, much of the data are presented in audio and video formats. You can access the simulation through Canvas.

Once you begin the simulation you will learn that Matterhorn Health has launched a new blood glucose-monitoring device for patients to track their own glucose levels. The product encounters serious quality problems soon after launch. You must cope with this unfolding crisis. You will be asked to make a series of important decisions during the simulation. Please note that the crisis may not be resolved when the simulation ends. Many product-quality crises unfold over time, and firms cannot resolve them quickly. When you do compete the simulation, please take a few moments to reflect on your decisions and actions.

You will need to sign in to the simulation before class so that I can register you for it from my end. This should only take you a few minutes. Please go to the simulation link on Canvas. That link will direct you to a Harvard publishing site. Once you get there you will be asked to log in to Harvard publishing if you already have an account, or, if you do not, to register for a free account. Once you do this your name will show up on my end for managing the simulation.

Once it is time to start the simulation you will be able to access it via Canvas. You will need to log in to start the simulation. **The simulation will take approximately 45-75 minutes**, and you will have time during the first day of class to complete it. I will analyze your aggregated, collective decisions before class so that we can discuss those decisions together.

Consider the following questions as you prepare for our discussion regarding the simulation. **You do not need to submit written answers for these questions**.

1. What key decisions did you make? Why did you make those choices?
2. What aspects of the situation did you find most challenging?
3. How did you cope with the high level of ambiguity, lack of complete information, and increasing levels of stress that you may have encountered in the situation?

4. What real-life situations mirror the conditions in the simulation? What product-quality crises can you relate to this one? Did firms handle those crises well or not?
5. What should the CEO tell the media at the press conference? Think about what you would do if you were asked to role-play that situation, either as the CEO or as a media member asking tough questions.
6. What advice do you have for managers in these types of crisis situations?

◆◆◆ OTHER RECOMMENDED READING ◆◆◆

- Richard H. Thaler and Cass R, Sunstein (2008). <u>Nudge: Improving Decisions about Health, Wealth, and Happiness</u>. New York: Penguin Group.

- James Surowiecki (2005). <u>The Wisdom of Crowds</u>. New York: Anchor Books.

- Chip Heath and Dan Heath (2007): <u>Made to Stick.</u> New York: Random House Books.

- Daniel Kahneman, Olivier Sibony and Cass Sustein (2021): <u>Noise: A Flaw in Human Judgment</u>. New York: Little Brown Spark.

- Michael Lewis (2004). <u>Moneyball: The Art of Winning an Unfair Game</u>. New York: W.W. Norton & Company.

- Michael Lewis (2017). <u>The Undoing Project: A Friendship That Changed Our Minds</u>. New York: W.W. Norton & Company, Inc.

- Jon Krakauer (1999). <u>Into Thin Air: A Personal Account of the Mt. Everest Disaster</u>. New York: Anchor Books.

- Nate Silver (2012). <u>The Signal and the Noise: Why So Many Predictions Fail—but Some Don't</u>. New York: The Penguin Press.

- Robert B. Cialdini (2006). <u>Influence: The Psychology of Persuasion</u> (revised edition). New York: William Morrow & Company.

- Robert B. Cialdini (2018). <u>Pre-Suasion: A Revolutionary Way to Influence and Persuade</u>. New York: Simon & Schuster.

- Nassim Nicholas Taleb (2010). <u>The Black Swan: The Impact of the Highly Improbably</u> (2nd edition). New York: Random House.

- Leonard Mlodinow (2008). <u>The Drunkard's Walk: How Randomness Rules Our Lives</u>. New York: Pantheon Books.

- Laszlo Bock (2015). <u>Work Rules!: Insights from Inside Google That Will Transform How You Live and Lead</u>. New York: Hachette Book Group.