Columbia Business School

BEHAVIORAL ECONOMICS & DECISION MAKING
Professor Vicki G. Morwitz

Fall 2022 Syllabus, will be revised for Fall 2023

B7619 (EMBA EVENING)
SEPTEMBER 7-DECEMBER 14, 2022

Professor: Vicki G. Morwitz
vgm2113@gsb.columbia.edu

Class will meet on Wednesdays from 6:00pm-9:00pm in person. We will take a break halfway through class.

Teaching Assistants

Sonia Kim
SKim23@gsb.columbia.edu
Sonia will be the primary grader for case assignments.

Alisa Wu
YWu23@gsb.columbia.edu
Alisa will be the primary in class support and the primary grader for the examination.

Professor Morwitz Office Hours:

Wednesdays: 12:30-1:00pm, Kravis 795*
                    1:00-1:30pm, Zoom*
(*except for 9/14, 10/19, 11/16, and 11/30)
                    and by appointment

◆◆◆ 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. **By the end of the first week of classes,** please complete the **online, pre-class survey** (the link is provided on the course homepage in Canvas and under Assignments, but no upload to Canvas is needed), the **Personal Assessment as a Decision Maker** assignment (submit to Canvas, under assignments), and the **Matterhorn Health Decision Making Simulation** (the link is on the course homepage in Canvas and under Assignments, but no upload to Canvas is needed). More details on all of these assignments follow

    a. These all count towards your assignment grade, so please be sure to complete them!

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2. I have a **strict no laptop/device policy**, except when using your CBS-issued iPad to take notes and when participating in in-class polls. I expect your full attention when class is in session and expect that you will refrain from using your devices for anything other than class during class sessions.

3. **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. You should have received these books already from the EMBA office. However, if you have not, or if for any reason you do not have access to the books, they are both available for purchase from various sources as ebooks and as physical books.

4. The **readings for each class** 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 and for case write ups. **This means that readings for days that cases are due will be helpful for your case preparation and write ups**.

5. **Participation is 25% of your grade**. This includes class participation, participating in in-class exercises, and attendance.

    a. **Attendance will be tracked via a combination of class monitoring and PollEverywhere**. Please make sure to log into PollEverywhere using your Columbia GSB account.

    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.** If you have an excused absence, please email the TAs and me directly.

6. **Written and other homework assignments are 40% of your grade**.

    a. There will be six **case assignments** total and **you have to complete four** of them (if you do **five or six** I will drop the lowest score for one of your assignments and give you a bonus point for each additional case). **You are expected to read all six cases, even if you do not complete a write-up. Please see the formatting guidelines before writing your first case assignment**.

    b. In addition to the case assignments, you must also complete the Personal assessment, the Personal assessment critique, an online survey used for various class examples, and complete a decision-making simulation. There is also another optional online exercise.

7. A **final examination will be 35% of your grade**. You will have 90 minutes for the final exam which you will take **during class time on the last day of class** (Wednesday, December 15th). We will also discuss the possibility of instead having an online take home final examination.

a. **Students who miss the examination (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 examintion 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 such 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. Note we will not only focus on our own decisions but importantly will also consider how the biases in others' decision-making influence us.

The course 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 and business more broadly. Classroom time will be devoted to a combination of lectures, discussions, videos, and exercises illustrating the main concepts.

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

◆◆◆ 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**
- Being ready to respond to **cold-calling**
- **Participating in a meaningful way** is expected and part of your grade
- Using **electronic devices** (outside of Polls and note taking on iPads) **is not allowed.**
- **Being respectful** of the professor and your fellow students (adhering to the Code of Conduct in the classroom)

- **Final Examination:** students who miss the final exam examination (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**

◆◆◆ **FORMAT** ◆◆◆

This course 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 class.

◆◆◆ **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 the Course Summary, in Readings folders for each class session under Files or through the Calendar).

Please note: readings from *Thinking* and *Misbehaving* will **not** be reproduced online due to copyright restrictions.

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 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, arriving on-time, and staying focused on class (not on devices).**

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

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- PollEV, which will be used both to track attendance and to foster participation and engagement during class.

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

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

All written homework materials must be submitted based on the following:
- 12-point Times Roman font
- Double spaced
- 1" margins all around

a. **Case assignments.** To reinforce the learning process, you are required to do **four** written case assignments. You may also do a fifth or sixth assignment. If you do a fifth or sixth assignment, I will drop the cases with the lowest scores and I will give you one extra credit point for each additional case submitted. You can choose any of the cases listed in the course roadmap to turn in. The specific questions you are asked to respond to for each case are listed at the end of this syllabus and are on Canvas. **You are expected to read all six cases and come prepared to discuss them, even if you do not complete the written assignment.**

Written case assignments should be done on an individual basis. **Each student must submit their own paper with original work**. I reserve the right to run submitted cases through plagiarism detection software which will compare case write ups to prior ones submitted at CBS and at other institutions. The written case assignments should be contextualized in the case at hand and should draw on information from the readings and lectures to support your analysis.

All case 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.

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.

2. Make your assumptions explicit whenever necessary and defend their reasonableness.

3. Your analysis should be thorough, be carried out correctly, and should draw whenever relevant on material presented in the assigned readings or in class. Note I expect you to be able to use materials from the readings in case write ups, even if they have not yet been discussed in class.

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.

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Formatting requirements:

> Case assignments have a **strict four-page limit**. All papers should be **double-spaced** with **1" margins** and **12-point Times Roman 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.

All case 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. 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**.

b. **Other assignments:** In addition to the case assignments your final assignment grade will also include the following components:

1. Personal assessment as a Decision Maker – 2 assignment points
2. Personal assessment as a Decision Maker critique – 2 assignment points
3. Decision making simulation – 2 assignment points
4. Online survey used for various class examples – 4 assignment points
5. Optional IAT online exercise – 1 extra credit assignment point

Personal Assessment as a Decision Maker

Ideally submitted before our first class session so I can get to know you, but officially due no later than by 5pm Friday, September 9th, submit via Canvas.

Complete a three-paragraph (no more than 1 page double-spaced) statement that introduces yourself to me (1 paragraph), includes a frank assessment of your perceptions of your own decision-making strengths and weaknesses (1 paragraph), and a declaration of a personal goal – what you want to get out of the course (1 paragraph). You will be more likely to improve if you decide what you want out of this course.

For the personal assessment, if at all possible please submit a Word file. Please name the file "last_name first_name personal assessment" (e.g., "Morwitz Vicki personal assessment.doc").

This assignment will be graded out of 2 points. You will receive 2 points for a thorough and complete statement, 1 point for a more limited statement, and 0 points if this is not completed.

Personal Assessment as a Decision Maker Critique

Due by before the start of class on December 7th, submit via Canvas.

By the last day of class, December 7th, you need to submit a written critique of your own prior statement of your decision-making strengths and weaknesses (no more than 1 page double-spaced). Using the knowledge you learned throughout the semester in this course, briefly comment on how you would restate your strengths and weaknesses based on what you learned in the course. For example, if you learned that something you stated as a strength could actually be a decision-making weakness that can lead to bias, or if you learned that a self-stated weakness is actually a factor that can lead to good decision making, you should state that. You can also use course content to provide support for your original statements regarding strengths and weaknesses.

This assignment will be graded out of 2 points. You will receive 2 points for a thorough and complete critique, 1 point if you fail to comment on major concepts that were discussed in class that applied to your statement, and 0 points if this is not completed.

Matterhorn Health Decision Making 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.

By the start of our first class session, I will need you to sign in to the simulation 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 to play. You need to complete the simulation by no later than 5pm, Friday September 9th.

We will discuss the simulation in class on our second day of class. 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:

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 ambiguity in the situation? How did you handle the lack of complete information? How did you cope with the increasing levels of stress that you may have encountered during the unfolding 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?

You will receive 2 points if you complete the simulation, 1 point if you only partially complete it, and 0 points if you do not complete it.

Online survey:

In order to illustrate several different constructs we will discuss during the course, you will be asked to complete an online survey before our first class session as a homework assignment. The survey will ask for your name, but this will only be used to give you credit for completing the assignment. Your names will be removed, and the data will be analyzed and presented in aggregate form to illustrate some concepts. Please just use your intuition and judgment to answer the questions – most questions do not have right or wrong answers and the concepts we will discuss have to do with intuitive judgment and not with ability to look answers up online.

The link to the survey is:
- https://columbia.az1.qualtrics.com/jfe/form/SV_aWTxKMUqo7Lgo5g

- Please complete no later than 5pm, Friday September 9th.
- The link will also be sent to you via email and posted on Canvas.
- The survey will count towards your homework assignment grade, so please complete it!
- You will receive 4 homework points for completing the entire survey. Partial completion will result in fewer points. You will receive 0 points if you do not complete this.

IAT Test

Before the start of class on Wednesday November 9th, take an implicit attitude test (IAT) here:

- https://implicit.harvard.edu/implicit/

(select continue as guest option – you can do whichever one you like – if you upload to Canvas a screenshot of the completion page (without the result showing) I will give you an extra homework point)

3. **Final Examination (35%). You will have 90 minutes for the final examination, which you will take during class time on the last day of class (Wednesday, December 14th).** We will discuss the possibility of instead making the final examinationan online take-home examination.

◆◆◆ GRADING SYSTEM ◆◆◆

The final exam will also be graded by the TA. Graded 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. Please keep in mind that 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**.

◆◆◆ DATES AND TOPICS SUBJECT TO CHANGE ◆◆◆

Date	Topic	Readings	To-Do

• September 7	▪ Intro to Behavioral Economics
	▪ Your Two Brains
	▪ The Confidence Game
		▪ Thinking, Chs. 1, 2, p. 105	▪ Before the start of class
			  o Register for the Matterhorn Health simulation
			▪ By 5pm Friday Septembeer 9th, complete the:
			  o Pre-class survey
			  o Personal assessment
			  o Matterhorn Health simulation

• September 14	▪ Matterhorn Health Simulation Discussion ▪ The Role of Confidence	▪ Thinking Ch. 24 (just pp. 261-265) ▪ Moore and Morse, Confidence doesn't always boost performance ▪ Zenger and Folkman,	▪ Complete Matterhorn Simulation BY 5pm September 9th

		Women score higher than men in most leadership skills	
• September 21	▪ Prospect Theory ▪ Loss Aversion ▪ Framing	▪ Thinking, Chs. 26, 27, pps. 316-321 (starting with "The Fourfold Pattern")	
• September 28	▪ Perception of Risks: The Use of Heuristics ▪ Guest Speaker, Matt Wallaert, BeSci.io	▪ Thinking, Ch. 10, 11, 12 ▪ Groopman, What's the trouble?	
▪ October 5, No class, Yom Kippur			
• October 12	▪ Toro Case ▪ Mental accounting	▪ Misbehaving Ch. 7 ▪ Case, The Toro Company's S'no Risk Program	▪ Read The Toro Company's S'no Risk Program Case before class ▪ Submit the case assignment before the start of today's class
▪ October 19, No class, MBA exam period			
• October 26	• JC Penney Case ▪ Impatience and Self-Control	▪ Misbehaving, pp. 85-94 ▪ Case, JC Penney	▪ Read the JC Penney Case before class ▪ Submit the case assignment before the start of today's class
• November 2	• Selling CFLs at Wal-Mart Case ▪ Bounded awareness and Information Filtering ▪ Guest Speaker, Suzanne Kirkendall, BVA Nudge Consulting	▪ Bazerman and Chugh, Decisions without Blinders ▪ Case, Selling CFLs at Wal-Mart	▪ Read the Selling CFLs at Wal-Mart Case before class ▪ Submit the case assignment before the start of today's class
• November 9	• Mount Everest case • Fairness	▪ Misbehaving Ch. 14	▪ Read Mount Everest – 1996 Case ▪ Submit the case assignment before the start of today's class

		Bounded Ethicality	• Thaler, The law of supply and demand isn't fair • Case, Mount Everest	• Take an implicit attitude test (IAT) here before today's class: o https://implicit.harvard.edu/implicit/ (select continue as guest option – you can do whichever one you like – if you upload to Canvas a screenshot of the completion page (without the result showing) I will give you an extra point)
• November 16	• Affect Heuristic • Experts and Models • Coca-Cola vending machine case		• Thinking pp. 101-104, Ch. 19, 21, 22 • Case, Coca Cola Vending Machine	• Read Coca-Cola Vending Machine case • Submit the case assignment before the start of today's class
• November 23, No class, Thanksgiving				
• November 30	• Guest Speaker, Laura Kornhauser, Stratyfy • Guest Speaker, Kelly Peters, former CEO, BEworks			
• December 7	• Improving decision making • Behavioral insights case • Guest speaker, Joe Timko, CBS		• Misbehaving Ch. 31-32 • Thinking Ch. 23 • Gawande, The Checklist • Bakhasi and Fox, The best flu prevention might be behavioral economics • Soll, Milkman, and Payne, Outsmart your own biases	• Read Behavioural Insights Case (A) • Submit the case assignment before the start of today's class • Personal Assessment critique due

		▪ Case, Behavioral Insights (A)	
• December 8-11	▪ Final Exam		▪ This will be an online take-home exam, administered on Canvas. You will have 3 hours in a single block to complete it, but it will be designed to take 90 minutes.

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

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Below are the questions for the written case assignments listed in the Course Roadmap.

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 Penney's new pricing strategy may not have not worked as intended? Using concepts from class discuss how consumers likely reacted to this strategy.
    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. **Everest – 1996**
    a. Why did this tragedy occur? What is the root cause of this disaster?
    b. What is your evaluation of Scott Fischer and Rob Hall as leaders and decision makers? Did they make some poor decisions? Based on the concepts we discussed in class what decision-making biases, if any, did they display?
    c. What could they have done differently?

5. **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?

6. Behavioural 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.
   b. Discuss how you used concepts from class in designing your letter.

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◆◆◆ OTHER RECOMMENDED READINGS ◆◆◆

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- Daniel Kahneman, Olivier Sibony, and Cass R. Sunstein (2021). Noise. Little, Brown, & Company.

- Richard H. Thaler and Cass R, Sunstein (2021). Nudge: The Final Edition. New York: Penguin Group.

- Eric J. Johnson (2021). The Elements of Choice: Why the way we Decide Matters. Riverhead Books.

- 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.

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

- 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.

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

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

- Aziz Ansari and Eric Klinenberg (2015). Modern Romance. New York: Penguin Press.

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

- Michael J. Sandel (2009). Justice: What's the Right Thing to Do?. New York: Farrar, Straus and Giroux.

- Michael J. Sandel (2013). What Money Can't Buy: The Moral Limits of Markets. New York: Farrar, Straus and Giroux.

- Philip E. Tetlock and Dan Gardner (2013). Superforecasting: The Art and Science of Prediction. New York: Broadway Books.

- Richard O. Prum (2017). <u>The Evolution of Beauty: How Darwin's Forgotten Theory of Mate Choice Shapes the Animal World—and Us</u>. New York: Doubleday.

- Merv Emre (2018). <u>The Personality Brokers: The Strange History of Meyers-Briggs and the Birth of Personality Testing.</u> New York: Doubleday.