Behavioural Decision Making II:
The Psychology of Economic Decisions

2023-2024 Academic Year
Master of Research in Economics, Finance and Management

1. Description of the subject

- Behavioural Decision Making II: The Psychology of Economic Decisions
- Code: 32587
- Total credits: 6 ECTS Workload:150 hours
- Term: 3rd
- Type of subject: Elective
- Department of Economics and Business
- Professor: Daniel Navarro-Martinez

2. Teaching guide

Overview

The purpose of this course is to provide students with an overview of research in **behavioural decision making**, focusing on work that has been influential in **behavioural economics**. Behavioural decision making is a very interdisciplinary field that draws on knowledge and methods in psychology and economics (among other fields) to try to understand how people make decisions. The field has been pivotal in the development of behavioural economics and is closely related to the Nobel prizes in economics awarded to Daniel Kahneman (2002) and Richard Thaler (2017). Research in behavioural decision making has also many practical applications in numerous economic and social settings in which people make decisions, so that this course can be relevant for both academically-oriented and practice-oriented students.

This class can be taken individually or in combination with **Behavioural Decision Making I**, or more generally as part of the **behavioural economics and decision-making track** (more information on this track is provided below in Section 4). Behavioural Decision Making I is more psychologically oriented and more focused on cognitive modelling. It also has an emphasis on the formation of judgments and on how attention and experience affect valuations and decisions. Behavioural Decision Making II is more focused on establishing links with behavioural economics and on how the field of behavioural economics has developed through its interaction with behavioural decision making.

Methodology

The course has a research focus and will mostly be conducted in seminar style. The professor will introduce the course and some relevant aspects of the field in the first two classes. He will also provide explanations of key concepts throughout the course, but most sessions will consist in discussions of published research papers presented by the students. Typically, each session will involve the discussion of two papers. For each paper, one student will be in charge of introducing the paper and starting the discussion, and the whole class will be expected to actively participate. So, all the students will be expected to come to class prepared to discuss the papers. Each student will present a minimum of one and a maximum of three papers, depending on the number of students taking the course. The professor will moderate the discussions, making sure that they cover all the relevant aspects of each paper, and providing additional information.

Another important aspect of the course is that the students will conduct an original behavioural experiment, which will be piloted in the last two days of class and then run with a larger sample, following the guidelines given by the professor. The experiments will be run using Qualtrics, and one class will be a tutorial on how to use the platform. The students will conduct the experiments individually or in small groups, depending on the number of students.

One session will be given by an invited speaker, who will discuss his experience applying behavioural science insights in the industry.

Content

The course will cover the following topics, which are intended to give an overview of the fields of behavioural decision making and behavioural economics and their development:

- Deviations from Expected Utility Theory
- Prospect Theory and related ideas
- Context effects
- Choice architecture
- Inter-temporal decisions
- The unconscious mind
- Decision behaviour in games
- Replicability
- External validity

Schedule

This is the planned schedule for the course:

SESSIONS 1-2	*Introduction*
SESSION 3	Discussion papers 1 & 2
SESSION 4	Discussion papers 3 & 4
SESSION 5	*Prospect Theory* + Discussion paper 5
SESSION 6	Discussion papers 6 & 7
SESSION 7	Discussion papers 8 & 9
SESSION 8	Discussion papers 10 & 11
SESSION 9	*Invited speaker*
SESSION 10	Discussion papers 12 & 13
SESSION 11	*Qualtrics tutorial*
SESSION 12	Discussion papers 14 & 15
SESSION 13	Discussion papers 16 & 17
SESSION 14	Discussion papers 18 & 19
SESSION 15	Discussion papers 20 & 21
SESSION 16	Discussion papers 22 & 23
SESSION 17	Discussion papers 24 & 25
SESSION 18	Discussion papers 26 & 27
SESSIONS 19-20	*Pilot studies*

Evaluation

The evaluation of the course will consist of three main components:

a) *Participation (40%):* The students will be expected to come to class prepared to discuss all the papers and will be encouraged to actively participate in all the discussions conducted in class. Given that most of the course relies on the discussion of papers, participation is of central importance.

b) *Presentation of papers (20%):* As described in the methodology section, each student will be required to present and start the discussion for a minimum of one and a maximum of three papers, depending on the number of students. The presentations should focus mostly on a critical assessment of the paper and introducing discussion points, rather than a mere summary of the paper.

c) *Behavioural experiment (40%):* The students will conduct an original behavioural experiment, using Qualtrics and following the guidelines provided by the professor. The experiments will be piloted in the last two classes and will then be run on a larger sample outside of the class. The students will have to write a brief report explaining the design of the experiment and the final results. These experiments will be done individually or in small groups, depending on the number of students.

There will be no exam in this course.

Materials

At the start of the course, the professor will give the students a detailed reading list with all the papers to be discussed in the different sessions and additional background readings. The students will then be asked to select the papers they want to present.

This section provides a few general references and popular books that the students might find interesting. These references are not required readings for the course.

A good general reference that covers many of the topics discussed in the course is the *Blackwell handbook of judgment and decision making* (two volumes):

Koehler, D.J. and Harvey, N., eds. (2004). *The Blackwell handbook of judgment and decision making (volume 1)*. Blackwell Publishing.

Koehler, D.J. and Harvey, N., eds. (2015). *The Blackwell handbook of judgment and decision making (volume 2)*. Blackwell Publishing.

The following are popular books, written by leading scholars, that the professor particularly recommends. They are written for the general public and they cover several of the topics discussed in the course in a very accessible way:

Ariely, D. (2008). *Predictably irrational: The hidden forces that shape our decisions*. Harper Perennial.

Kahneman, D. (2011). *Thinking, fast and slow*. Penguin Books.

Thaler, R.H. (2015). *Misbehaving: The making of behavioral economics*. WW Norton & Company.

Thaler, R.H., Sunstein, C.R. (2008). *Nudge: Improving decisions about health, wealth, and happiness*. Penguin Books.

3. Bio of professor

Daniel Navarro-Martinez (PhD) is an Associate Professor in the Department of Economics and Business at Universitat Pompeu Fabra, and an Affiliated Professor at the Barcelona School of Economics and the Barcelona School of Management. Before coming to Barcelona, he held positions at the University of Warwick (UK) and the London School of Economics and Political Science (UK). He does research in the fields of behavioural economics and judgment and decision making, and he has investigated topics such as the external validity of economic experiments, the effectiveness of choice architecture, decision making under risk and uncertainty, and social preferences. His research has been published in leading scientific journals, including *Management Science*, the *Journal of Marketing Research*, *Perspectives on Psychological Science*, *Social Science & Medicine*, the *Journal of Service Research*, *Games and Economic Behavior*, the *Journal of Risk and Uncertainty*, *Judgment and Decision Making*, the *Journal of Economic Psychology*, and *Theory and Decision*. His findings have also been covered by a number of international media, like *The Wall Street Journal*, *The Washington Post*, *BBC Radio*, *Men's Health*, *Science Daily*, and *Medical News Today*.

4. Behavioural economics and decision-making track

Fall term (September – December)

- Topics in Economic Theory: Behavioural Decision Theory (I and II, taught by Larbi Alaoui and Jose Apesteguia).

Winter term (January – March)

- Behavioural Decision Making I: Attention, Experience and Influence (taught by Gaël Le Mens)

Spring term (April – June)

- Behavioural Decision Making II: The Psychology of Economics Decisions (taught by Daniel Navarro-Martinez).
- Experimental Economics (taught by Rosemarie Nagel)

These courses cover different, and complementary, approaches to analyzing decision making. Topics in Economic Theory: Behavioural Decision Theory (I and II) falls within behavioural economics and decision theory, and focuses on modelling behavioural

phenomena that do not fall within standard rational choice theory. Behavioural Decision Making I: Attention, Experience and Influence focuses on how attentional processes, past experiences, the social environment, and recommendation systems affect beliefs and preferences. Behavioural Decision Making II: The Psychology of Economics Decisions draws from research in both behavioural economics and psychology to investigate topics such as preference reversals, self-control, the role of emotions in decision making, and choice architecture. Experimental Economics teaches methods used in the field of experimental economics and discusses experiments that focus on interactive situations.