

Behavioural Decision Making II: The Psychology of Economic Decisions

2022-2023 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 classes, and he will also provide explanations of key ideas throughout the course, but most sessions will consist in discussions of research papers led by the students. Typically, each session will involve the discussion of one or two papers. For each paper, one student will be in charge of leading the discussion, but the whole class will be expected to participate. So, all students will be expected to come to class prepared to discuss the papers. Each student will lead the discussion of 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 and make sure that they cover all the relevant aspects of each paper.

Content

The course will aim to cover the following topics, which are subject to changes depending on class dynamics:

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

The detail of the specific papers to be discussed on each topic will be given to the students at the start of the course.

Evaluation

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

- a) Leading paper discussions (30%): As described in the methodology section, each student will be required to lead the discussion of a minimum of one and a maximum of three papers, depending on the number of students.
- b) Participation (30%): The students will be expected to come to class prepared to discuss the papers and will be encouraged to participate in all the discussions conducted in class.
- c) Final paper (40%): The students will have to write a short final paper related to one of the topics covered in class, in which they develop a research idea and propose a study that could be conducted to test the idea and advance knowledge. The final papers will also be presented by the students on the last day of class.

There will be no exam in this course.

Materials

A good 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 decision making scholars, that I particularly recommend. 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.

At the start of the course, the professor will provide the students with a detailed list of the research papers to be discussed in class, including some additional readings.

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 Graduate 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 nudging, the role of uncertainty in decision making, and the influence of emotions on economic decisions. 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*, 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*, *Men's Health*, *BBC Radio 4*, *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.