



Pontificia Universidad
JAVERIANA
Bogotá



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ESADE
Business School

Using Behavioral Experiments to Optimize Decision Making in Firms and Institutions

International Summer

JULY · 4-6 · COURSE 2019

The recent award of the Nobel Prize in Economics to Professor Richard H. Thaler (University of Chicago) in 2017, has been the culmination of a revolution in Economics consisting in expanding the limited set of human motivations which were taken into account in traditional Economics to a much more interesting and realistic set of models in which experimental evidence is used to create a model including enriched Psychology.

At the same time, firms and institutions have finally realized that optimal decision making and organizational design can be achieved through a better understanding of the motivations behind economic agents (employers, employees, partners, clients...) esteeming from purposely designed laboratory and field experiments, which allow to establish causality behind economic phenomena.

In this course you will learn the main findings of behavioral economics in topics including choice under uncertainty, other regarding preferences, time discounting, game theory, learning, bounded rationality, emotions and neuroeconomics. You will not only learn how this findings came to be but also how to design, conduct and analyze your own experiments so that organizations can benefit from your knowledge and achieve better decision making based on causal evidence.

Additionally, through participating in class experiments, you may also learn more about yourself that you are currently prepared to know!

Class Schedule

July 4 | 6:00 pm - 10:00 pm

July 5 | 8:00 am - 12:00 pm, 2:00 pm - 6:00 pm

July 6 | 9:00 am - 12:00 pm, 1:00 pm - 4:00 pm

Student Learning Outcomes

As a result of this course students will be able to:

1. Be aware of the main psychological traits underpinning economic behavior.
2. Identify psychological biases which may be affecting optimal decision making in organizations.
3. Design incentive schemes appealing to human motivation.
4. Go beyond A/B testing and understand how causality can be established through the power of experimental design.
5. Design powerful economic experiments and analyze their results.
6. Conduct controlled laboratory experiments that allow you to understand human behavior.
7. Perform Randomized Controlled Trials (RCTs) and field experiments in general, which help you to optimize decisions in any organization.
8. Convince firms and institutions that decision making based on experimental evidence is a much more reliable way of running their organizations.
9. Understand how behavioral economics findings have been applied to better organizational design and to several areas such as Finance, Marketing, Pricing, Health or Education.

Policies and Requirements



The long-term benefits from this course are proportional to your investment in this course. This means that you must come to class prepared and contribute to the discussion in class. You will be evaluated based on the quality and quantity of your contributions to the course. Class participation is not limited to comments and responses to questions that I ask. Questions and comments that extend the discussion meaningfully, or that seek clarification, are welcome and encouraged.

Students in this course will be evaluated based on their active participation in case studies discussed in class and understanding of economics experiments in which they will participate (50%). Additionally, during the last lecture, groups of students will identify a behavioral problem affecting an organization and will have to come up with a proposal to alleviate it and present it to the class. These group work will be evaluated with the remaining 50% of the final grade.

+ Grading

GRADES ARE BASED ON A SCALE FROM · 0 TO 5 POINTS ·

ASSIGNMENT/GRADING ITEM	DUE DATE	PERCENTAGE
Active Participation in Class Case studies and experiments	July 6	50%
Work proposal	July 6	50%

Extra Credit: Extra credit is not available in this course.

Academic Misconduct Policy:

Certain student behavior will result in the lowering of the course grade by at least one point level. These behaviors include, but are not limited to:

- Intentional disruption, obstruction, or interference with the process of instruction
- Dishonesty, including cheating, knowingly furnishing false information, or plagiarism

Plagiarism: According to APA's publication manual (1994),

"Quotation marks should be used to indicate the exact words of another" (p. 292) "Each time a source is paraphrased, a credit for the source needs to be included in the text." (p. 294) The key here is not to present the work of another as being your own.

Otherwise, it is considered plagiarism.

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By accepting this contract, students agree that papers may be submitted to a plagiarism detection software. Papers will only be submitted if there exists a suspicion of plagiarism. Students may receive a zero for a written assignment if plagiarism is identified.

Expected Classroom Behavior:

- Participating in class activities
- Respecting the diversity of cultures, opinions, viewpoints in the classroom
- Listening to fellow students, professors, and lecturers with respect
- Prepared for class

Course Syllabus

THE FOLLOWING TWO BOOKS ARE (VERY) RECOMMENDED READINGS FOR STUDENTS WHO WANT TO MAKE THE MOST OF THE COURSE. PLEASE READ THEM BEFORE THE START OF THE COURSE.

- Richard H. Thaler. Misbehaving. Ed: Penguin Random House 2015.
- Uri Gneezy and John List. The Why Axis. Ed: Public Affairs 2013.

THE FOLLOWING ARTICLES WILL GUIDE PART OF OUR DISCUSSION AND ARE ALSO RECOMMENDED TO INTERESTED COURSE ATTENDANTS.

- "There is More to Behavioral Economics than Biases and Fallacies". Koen Smets. Behavioral Scientist. July 24, 2018.
Available at:
<https://behavioralscientist.org/there-is-more-to-behavioral-science-than-biases-and-fallacies/>
- "Cognitive Reflection and Decision Making". Shane Frederick. Journal of Economic Perspectives 19(4). 2005. Available at:
<http://emilkirkegaard.dk/en/wp-content/uploads/Shane-Frederick-Cognitive-Re%EF%AC%82ection-and-Decision-Making.pdf>
- Richard Thaler Nobel Prize Announcement Available at
<https://www.nobelprize.org/uploads/2018/06/press-43.pdf>
- What is an Economic Theory that can Inform Experiments? Gneezy and Rey-Biel. 2011. Available at:
<http://pareto.uab.es/prey/theory%20discussion%20april%2013%202011.pdf>
- "When and Why Incentives (Don't) Work to Modify Behavior" Gneezy, Meier and Rey-Biel. Journal of Economic Perspectives 25(4). 2011. Available at:
https://rady.ucsd.edu/faculty/directory/gneezy/pub/docs/jep_published.pdf
- Intuition can't beat Experimentation. A.Gneezy and U. Gneezy. Rady Business Journal. Available at:
<https://rbj.rady.ucsd.edu/index.php/ideas/2011/06/intuition-cant-beat-experimentation/>
- Why Economists should conduct field experiments and 14 tips to pulling one off. John List. Journal of Economic Perspectives 25(3). 2011. Available at:
<https://pdfs.semanticscholar.org/3a80/cab96a27f97d971db5f796db0698553414b2.pdf>

Course Syllabus

JULY 4

Introduction to Behavioral Economics

- What is Behavioral Economics? Mixing Psychology and Economics
- Experimentation as a Powerful tool for Behavioral Issues

JULY 5

Biases and Preferences (and how to stimulate them through Nudges and Incentives)

- The 10 most important behavioral biases
- The 3 crucial behavioral preferences: Social Preferences, Risk Preferences and Time Preferences
- Bounded Rationality
- Manipulating Behavior: Nudges Vs. (Psychologically motivated) Incentives
- Other behavioral Tools: Neuroeconomics, Surveys, Data Analysis.

JULY 6

Putting Behavioral Economics into Practice

- Advising Institutions and Conducting Experiments in Firms
- Applying Behavioral Economics to Finance, Insurance, Health and Education