



Behavioral Economics

Name of the Faculty:	Ritwik Banerjee
Designation/Affiliation:	Associate Professor, IIM Bangalore
Teaching Area: (such as Finance & Accounting; Marketing; Production & Operations Management; Strategy)	Economics
This course may be offered to:	GNAM Week MBA level
Total Credits (No. of hours):	3 credits – 30 hours
Specify the Year and Month:	Oct 2024 (GNAM week)
Course Type:	Elective
Grading Norms	Quantitative



Course Summary

The purpose of this course is to inform future managers, analysts and consultants of the deeper psychological processes which underlie decision making. The course will enable the students to incorporate the insights into marketing, human resource practices, finance and business strategies.

How a woman (or a man) fares in life depends to a large extent on a series of decisions that she takes. However, the process of how we arrive at decisions is often very complex. To keep things simple, economists assumed away much of the complexity and developed a rather simplistic framework for analyzing human behavior. The framework came to be known as the Rational Actor Model, where human beings were assumed to have many super human power. Let's call them *homo economicus* or simply, *Econs*. *Econs* are willful, selfish and have perfect foresight while also possessing extraordinary abilities to make complex calculation at very short period of time. Behavioral Economics was born as an antithesis to the Rational Actor Model. In this alternative paradigm, human beings were assumed to be less selfish and smart, prone to mistakes and procrastinations and often times myopic. Let's call them *homo behavioralis* or *Humans*. Do Humans sound more like you and me or for that matter, your neighbor next door?

Consider the following: ask the person on your left the answer to the following: $1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 6 \times 7 \times 8 \times 9 = ?$ To the one on your right: $9 \times 8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1 = ?$ Chances are that the one on your right will quote a higher number. The reason is they are *Humans*. If they were all *Econs*, the answer they would give would all be the same and it would indeed be the correct answer.

Each topic covered in this course will have two facets. First, students will get a broad overview of important results from behavioral economics and psychological aspects of economic decision making. Second, the students will see applications corresponding to these results. The course will also introduce the students the idea of experimentation - the methodological tool in which one thing is changed at a time which in turn makes causal inference possible. Finally, the course will draw heavily from the Indian cultural context, thereby giving the students a flavor of the cultural specificity and norm of an emerging economy such as India. Overall, the participants will have a better understanding of people and how they make decisions, which in turn will allow them to take effective managerial decisions.

Prerequisites: Completion of first year core courses in an MBA curriculum is preferred.

Learning Objectives / Outcomes

The objective of this course is to deliver:

- **Conceptual fundamentals** governing how decisions are made.
- **Ample business applications** of important results and principles of behavioral economics.

This course will enable students to have a better understanding of people and how they take decisions, which in turn will lead to effective decision making in the context of management. The course will also aim to sensitize students to the behavioral specificities and cultural norms of emerging economics like India.



Knowledge of such local cultural norms will help students have a better understanding of the Indian context which in turn will help them negotiate the unique challenges of conducting business in the global South.

Pedagogy

A variety of approaches will be used – lectures will contain short cases or caselets, presented in the form of Business Applications and newspaper articles. In class exercises in the form of Demonstration Problems and Examples will also be used. The lecture slides will contain the essential elements needed for the course. Readings and handouts will be given throughout the course.

The following are the textbooks for the course:

1. *Thinking Fast and Slow* by Daniel Kahneman
2. *Misbehaving* by Richard Thaler
3. *Nudge* by Richard Thaler

The following are some of the suggested readings:

4. *Judgement in Managerial Decision Making* by Max. H Bazerman and Don A. Moore
5. *Personnel Economics* by Peter Kuhn
6. *Personnel Economics in Practice* by Edward Lazear and Michael Gibbs
7. World Development Report 2013

Course Evaluation & Grading

The grading will be qualitative (Excellent / Good / Satisfactory / Failure). However, quantitative grade points may also be provided if needed from any of the participating schools. The final grades will be determined on the following:

Component	Unit	Weight
Project Presentation	Group	100%

Students may be absent in **at most three sessions** during the week. The completion certificate will not be issued if a student is absent for more than three sessions during the week. The students are also strongly encouraged to attend all the activities arranged around the coursework, e.g., conference dinner, field visit, yoga sessions etc.



Day	Morning	09:00 - 10:15	10:30 - 11:45	12:00 - 01:15	01:15 - 02:30	02:30 - 03:45	04:00 - 05:15	Evening
0 (Sunday)	Arrival Day							
1		Inauguration + Introduction to Behavioral Economics	Introduction to Experimental Methods	Heuristics and Biases	Lunch	Overconfidence and Exponential Growth Bias		Campus walk + Dinner @MDC 7:30 PM
2		Loss Aversion	Mental Accounting	Impatience and Self Control I	Lunch in the field	Field Visit: BE in the Bazaar		Cultural Evening
3	Yoga and Breakfast	Impatience and Self Control II	Designing an Experiment	Perception of Fairness and Justice	Lunch	Pitch time: Students present a pitch an idea for group project		Free time for Project Work
4	Nature Walk and Breakfast	BE in action: Discrimination	BE in action: Gender	BE in adtion: Nudges and Public Policy	Lunch	Discussion on experimental design and coding up the experiment		Free time for Project Work
5 (Friday)		Groupwise Student Presentations			Lunch	Guest Lecture and Certificate Presentation		Departure





Day	Session in the day	Lecture	Topic
1	1 9:00am- 10:15am	1-2	Inauguration Introduction to Behavioral Economics and Experimental Methods In class experiment Econs and Humans Reading: “Humans and Econs” Chapter 1, Nudge
1	3	3	Heuristics and Biases <i>In class experiment</i> How do consumers use heuristics to make decisions? What are the biases in their decision-making process? Reading: “Part II: Heuristics and Biases” Chapter 10-13, Thinking Fast and Slow
1	4	4	Overconfidence and Exponential Growth Bias <i>In class experiment</i> What is exponential growth bias? Application: personal finance Application: COVID-19
2	1	5	Loss Aversion Why are losses more painful than gains pleasurable? Applications of loss aversion



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			Reading: Chapter 26 and 27, Thinking Fast and Slow Case: Why Consumers Don't Buy: The Psychology of New Product Adoption (HBR) (Gourville, 2003)
2	2	6	Mental Accounting How do we partition payment streams and set prices? Reading: Part II – Mental Accounting, Misbehaving, Richard Thaler
2	3	7	Impatience and self-control-I How people really discount the future? Why do we buy alarm clocks when we actually prefer to sleep in the morning? Reading: Chapter 11 and 12, Misbehaving
2	4-5	8-9	Field visit: BE in the Bazar
3	1	10	Impatience and self-control-II How people really discount the future? Why do we buy alarm clocks when we actually prefer to sleep in the morning? Reading: Chapter 11 and 12, Misbehaving
3	2	11	Designing an Experiment
3	3	12	Perceptions of fairness Is UBER's surge pricing fair? Is it fair for a hospital to charge surge pricing in times of dengue?



			Reading: Chapter 8, Judgement in Managerial Decision Making
3	4-5	13-14	Pitch Time: Students pitch an idea for a group project
4	1	15	BE in Action - Discrimination Why does a Black/Dalit/Muslim/Female get paid less than an equally able White/Upper caste/Hindu/Male worker? Explicit and Implicit biases among managers Gender differences in self-confidence, competition, risk preference, leadership Reading: Chapter 16 Personnel Economics
4	2	16	BE in Action: Gender Gender and self confidence Gender and competition Gender and low-promotability jobs Reading: HBR article on low-promotability jobs
4	3	17	Nudges and Public Policy: Defaults and Choice Architecture How do we design lunchrooms so that children opt for healthier food? How do we make people save more without changing the interest rates? Reading: Chapter 4, 5 and 16, Nudge
4	4-5	18-19	Field Visit: Visit to a company that uses principles of BE
5	1-2	20-21	Student Presentations
5	3	22	Guest Lecture and Certificate Presentation



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Profile of Faculty:

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