

Course Syllabus

INSTRUCTOR	Professor Katy Milkman
CLASS MEETINGS	Tuesdays and Thursdays, Jon M. Huntsman Hall Room G65 10:30-11:50 AM
OFFICE HOURS	Email me, and we'll set up an appointment anytime.
OFFICE LOCATION	Jon M. Huntsman Hall 566
EMAIL	kmilkman@wharton.upenn.edu
PREREQUISITES	No advanced mathematical training is required for this course, although having taken an introductory probability/statistics course may be useful.
TEACHING ASSISTANTS	Ph.D. Candidates Emma Levine (emmased@wharton.upenn.edu) and Hengchen Dai (hengchen@wharton.upenn.edu)

1. Overview

1.1 Background

Over the last 30 years, psychologists and economists have joined forces to study how people process information and actually make decisions, rather than how they would make decision if they were fully rational and selfish. This research program (dubbed behavioral economics) has provided an understanding of how people's decisions deviate from "optimal" choices as well as the consequences of such deviations. This course is devoted to understanding the nature, causes and implications of these limitations. The first two thirds of the course will focus on when individuals make decisions that deviate from the predictions of economics, and the final third of the course will focus on implications of these systematic decision biases for managers and policy makers.

1.2 Objectives

The course has two main objectives. The first is improving the ability of the student (as a future manager) to influence the behavior of others, be they consumers, employees or people outside of a business relationship altogether. This will be accomplished by building on the toolbox that standard economics provides for influencing behavior (namely, incentives and information) with the insights from the aforementioned stream of research in behavioral economics.

The second objective is to improve the quality of students' own managerial decisions, primarily by enhancing the students' intuitive empirical abilities but also by improving their understanding of project evaluation. 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 managerial settings and look for easy-to-implement solutions. We will also touch upon ways to evaluate the effectiveness of new ideas in the workplace.

1.3 Who Should Not Take This Class

- If you have taken PPE 203/PSYC 265: Behavioral Economics and Psychology, you should not take this class – the two classes have extensive overlap.
- If you are seeking a quantitative course about decision making, you may not like this class.
- If you can't stand psychology, you may not like this class.

1.4 Instruction Format

The course is primarily lecture based, although it includes some cases and activities. Class discussion is strongly encouraged.

2. Logistics

2.1 Readings

Two books are required for class:

- (1) Thaler, R.H. & Sunstein, C.R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press: New Haven, CT.
- (2) Cialdini, R.B. (1993). Influence: The Psychology of Persuasion. Harper Collins Publishing: New York, NY.

Both are available for purchase at major online retailers and at the Penn book store. They are popular press books rather than textbooks.

Additional required readings are available in .pdf format from Canvas and through Study.net (readings only available through Study.net are subject to copyright restrictions).

2.2 Grading

Final grades will be determined by aggregating performance on the following:

(1) Midterm Exam	(30%)	(2) Homework	(18%)
(3) Class Participation	(20%)	(4) Final Group Project	(32%)

2.2.1 Midterm Exam (March 26th)

The midterm will contain short-answer, essay and multiple choice questions and will take about an hour and fifteen minutes to complete. A sample midterm will be posted on Canvas.

2.2.2 Homework

Six homework assignments will be due throughout the term. Homework should be an individual exercise unless otherwise indicated. **Homework is always due by 9 am on the day of class.**

2.2.3 Class Participation

Students should come to class prepared to actively discuss the concepts in the readings. The goal is to make comments that significantly advance the class discussion, so quality is more important than quantity (but some quantity is necessary for quality to be judged). To contribute successfully to class discussion, attendance is of course necessary.

A subset of the questions that will be raised in class discussions will be posted along with reading assignments on Canvas. **Please prepare for each class by reading and considering these questions posted on Canvas carefully.**

Your contribution to our learning environment is more than just your participation in class discussion. Your active engagement in the various exercises we will conduct in class, helping one another with the course material, making suggestions about the course, etc. are all also critical aspects of your contribution to the learning environment. You have the option to participate in **Twitter (*more on this later*)** dialogues about our course, and being a thoughtful participant in this space is also a way to improve your class participation.

NOTE: Some people are uncomfortable with presenting viewpoints in a large group setting. However, contributing to discussions is an important part of your career development. I will cold call. If you are unprepared for class on a given day, please let me know in advance, and I will not call on you. If there is anything that may interfere with your ability to contribute on an ongoing basis, let's discuss it sooner rather than later. I am happy to work with you off-line to develop a strategy for deepening your comfort and performance in class participation. If you are not sure where to start, please talk to me and we will figure out a plan together.

Twitter

As an extension of our in-class learning experience, I will be tweeting throughout the course using the hashtag #OPIM290 and you are welcome, but not required, to participate as well. This is a particularly good space for sharing real world examples of the concepts we discuss in class. Because Twitter is not required in the course, you will not be held responsible for reading what is posted there, and you should not feel pressured to do so, but you are likely to learn more by following along. This is also an opportunity to enhance your contribution to the class participation portion of your grade.

Your tweets will be evaluated based on the extent to which your tweet is grounded in analysis or reflection. In other words, simply retweeting an article is perfectly fine and very much appreciated, but it will not boost your class participation as much as other forms of tweeting. For example, tell us how an article you are sharing parallels something we discussed in class or how it contradicts something we have learned or what tension it illustrates. Help us connect dots with your tweets.

Those of you who have a Twitter account, or are interested in making one for this class, are welcome to follow me (@Katy_Milkman) and to use the #OPIM290 hashtag when tweeting about topics related to this course. The class TA's are available for help and to answer any questions about making an account or using Twitter.

And for those of you who do not wish to get a Twitter account but who want to see what is going on, the easiest way to follow a hashtag without having an account is to use the Twitter search: <https://twitter.com/search>. You can type in a @person or #hashtag to see what is being tweeted. The only exception is if a user has marked his or her tweets (or profile) private, which might not show up in a public search. Also, you can always just Google a hashtag.

I am including a few relevant handles below, which you may find it interesting to follow. I have not screened these, but am including them because of their relevance to our class topics. If you find others that are relevant, please share them with all of us via Twitter.

Class Related: @RobertCialdini, @heathbrothers, @Opower, @StickK, @ideas42, @nudgeblog, @BrianWansink, @CFCamerer, @Atul_Gawande, @Gladwell, @CassSunstein, @deankarlan, @dilipsoman, @DanTGilbert, @francescagino, @StevenLevitt, @danariely, @R_Thaler, @m_sendhil

2.2.4 Final Group Project

Design an Intervention to Solve a Managerial Problem

Everyone will take part in a group project (3-4 people per group) that will involve applying an idea from the first two thirds of this course to a managerial problem. Groups will develop a proposed behavioral intervention to solve a managerial problem at a particular organization and will develop an argument for why their proposal should be implemented by the organization in question. For example, a managerial problem of interest might be high rates of worker absenteeism in a specific US manufacturing facility. A behavioral intervention to address the problem might involve mailings to workers emphasizing low absenteeism rates among their peers. Your group would put together a compelling proposal designed to convince management at the manufacturing company that they should implement your intervention and detailing both how to deploy it and how to measure its effectiveness. Groups must research their managerial setting in detail, define the problem to be addressed, describe their proposed intervention, provide a brief review of past research that gave rise to the proposed intervention, and describe the methods that are proposed for evaluating the effectiveness of the intervention.

- **PRELIMINARY GROUP SELECTION** (*March 5th*): Please plan to sign-up with the group you plan to work with on your final project in class on March 5th.
- **OUTLINE** (*Due April 2nd*): Each group must submit a 1-page, single-spaced summary of their planned project. I will provide feedback on these project outlines. Prior to submitting this assignment each group should plan on meeting with me to talk through several ideas and choose the best one to work on.
- **PRESENTATIONS** (*April 21st & 23rd*): On these two days of class, each group will have between 5 and 15 minutes (depending on the final number of groups) to present their project to the class.
- **PAPERS** (*Due April 28th*): Each group must submit a 10 page, double-spaced paper providing a description of their project.

2.3 Class Policies

Laptops and Cell Phones: Laptops and cell phones are not permitted in class.

Absences: When you are absent, the class can't benefit from your comments and insights on the material, and this will of course hurt your class participation grade. If you are absent, you should arrange beforehand with a classmate to take notes and pick up any assignments or handouts.

Late Assignments: Late assignments will result in a grade deduction of 1 point per day. For example, a homework assignment worth 3 points out of your total course grade of 100 points could receive a maximum score of 2 points (instead of 3) if turned in one day late.

Late Arrivals: Please arrive on time to avoid disrupting the class.

Email Correspondence: I am often, but not always, on email. Therefore, to make sure that you get any information you need well before deadlines, please email me at least *24 hours* before you need an answer, want to set up a meeting, etc.

3. Course Outline

#	CLASS	TOPIC	ASSIGNMENT/ READINGS DUE
1	January 15 th	Introduction	Reading: Brooks (2011)
2	January 20 th	Standard Economic Models of Decision Making and Experiments	Reading: Becker (1976); Levitt & Dubner (2005); Ayres (2007) Due: Homework #1
3	January 22 nd	Prospect Theory	Reading: Thaler & Sunstein (2008)
4	January 27 th	Heuristics and Biases	Reading: Gladwell (2003); Gawande (1999)
5	January 29 th	Fairness and Cooperation	Reading: Brafman and Brafman (2008)
6	February 3 th	Fairness	Reading: The Kidney Case
7	February 5 th	Current Research on Decision Processes	Due: Homework #2
8	February 10 th	Social Norms and Conformity (<i>Guest Lecture: Marc Laiton, Senior Director of Product Management at OPower</i>)	Reading: OPower Case
9	February 12 th	Intertemporal Choice and Want/Should Conflict	Reading: Wansink (2006); Cassidy (2006) Due: Homework #3
10	February 17 th	Commitment Devices and Mental Accounting	Reading: Green Bank of the Philippines Case; Lieber (2010)
11	February 19 th	Selling Commitment Devices (<i>Guest Lecture: Jordan Goldberg, CEO StickK</i>)	Prepare: Visit and familiarize yourself with www.stickk.com Due: Homework #4
12	February 24 th	Follow-Through	
13	February 26 th	Cognitive Dissonance, Confirmation Bias and Escalation of Commitment	Prepare: Tavris and Aronson (2007)
14	March 3 rd	The Challenger Launch Decision	Prepare: Challenger Case
15	March 5 th	Bounded Awareness, Overconfidence, and Bounded Ethicality	Reading: Gladwell (2009) Due: List of final project group teammates
16	March 17 th	Warped Beliefs	Reading: Gertner (2003) Due: Homework #5
17	March 19 th	Libertarian Paternalism and Choice Architecture	Reading: Thaler & Sunstein (2008)
18	March 24 th	Midterm Review	
19	March 26 th	Midterm Exam	
20	March 31 st	The Wisdom of Crowds	Reading: To be announced
21	April 2 nd	Influence and Nudging in the Wild I (<i>Guest Lecture: Piyush Tantia, Executive Director of ideas42</i>)	Reading: Cialdini (1993) Prepare: Visit and familiarize yourself with www.ideas42.org Due: Final Project Outline
22	April 7 th	Influence and Nudging in the Wild II (<i>Guest Lecture: Senior Analyst from the Analyst Institute</i>)	Reading: Issenberg (2010); Cialdini (1993)
23	April 9 th	Influence and Nudging in the Wild III (<i>Guest Lecture: Jennifer Kurkoski, Director of Google's People and Innovation Lab</i>)	Reading: Sullivan (2013); Cialdini (1993)
24	April 14 th	Influence and Behavioral Economics in the Wild IV	Reading: Cialdini (1993) Due: Homework #6
25	April 16 th	<i>In-Class Group Project Preparation</i>	
26	April 21 st	Final Project Presentations	
27	April 23 rd	Final Project Presentations	
28	April 28 th	Conclusion	Due: Final Project Paper

4. Reading Assignments

Note: This schedule is subject to change based upon actual progress in class. New versions of the schedule, if any, will be posted on Canvas.

Where to Find Readings: (C) = Canvas, (S) = Study.net, and (B) = Book (Nudge or Influence)

CLASS 1: INTRODUCTION

January 15th

(C) Brooks, D. (2011). "Who You Are," *The New York Times*, October 20, 2011.

CLASS 2: STANDARD ECONOMIC MODELS OF DECISION MAKING AND EXPERIMENTS

January 20th

(S) Becker, G. (1976). The Economic Approach to Human Behavior. Chicago: University of Chicago Press. *Introduction*.

(S) Levitt, S.D. & Dubner, S.J. (2005). Freakonomics: A Rogue Economist Explores the Hidden Side of Everything. Harper Perrenial: New York. *Introduction*.

(S) Ayres, I. (2007). Super Crunchers. Bantam Books: New York, NY. *Chapter 2: Creating Your Own Data with the Flip of a Coin*.

CLASS 3: PROSPECT THEORY

January 22nd

(B) Thaler, R.H. & Sunstein, C.R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press: New Haven, CT. *Chapter 11: How to Increase Organ Donations*.

CLASS 4: HEURISTICS AND BIASES

January 27th

(S) Gladwell, M. (2003). "Connecting the Dots: The Paradoxes of Intelligence Reform," *The New Yorker*, March 10, 2003.

(S) Gawande, A. (1999). "The Cancer Cluster Myth." *The New Yorker*, February 8, 1999.

CLASS 5: FAIRNESS AND COOPERATION*January 29th*

(S) Brafman, O. & Brafman, R. (2008). Sway: The Irresistible Pull of Irrational Behavior. Broadway Books: New York, NY. *Chapter 6: In France, the Sun Revolves around the Earth.*

CLASS 6: FAIRNESS*February 3rd*

(S) Austin-Smith, D., Feddersen, Galinsky, A. & Liljenquist, K. (2010). The Kidney Case. Dispute Resolution Research Center, Northwestern University: Evanston, IL.

CLASS 7: CURRENT RESEARCH ON DECISION PROCESSES*February 5th*

No reading assigned.

CLASS 8: SOCIAL NORMS AND CONFORMITY*February 10th*

(S) Cuddy, A.C. & Doherty, K.T. (2010). OPOWER: Increasing Energy Efficiency through Normative Influence. Harvard Business School Press: Cambridge, MA.

CLASS 9: INTERTEMPORAL CHOICE AND WANT/SHOULD CONFLICT*February 12th*

(S) Wansink, B. (2006). Mindless Eating. Bantam Books: New York, NY. *Chapter 1: The Mindless Margin.*

(S) Cassidy, J. (2006). "Mind Games: What Neuroeconomics Tells Us about Money and the Brain." *The New Yorker*, September 18, 2006.

CLASS 10: COMMITMENT DEVICES AND MENTAL ACCOUNTING*February 17th*

(S) Ashraf, Nava, Dean Karlan, and Wesley Yin. Evaluating Microsavings Programs: Green Bank of the Philippines (A). Harvard Business School Publishing: Cambridge, MA.

(C) Leiber, R. (2010). "Your Card Has Been Declined, Just as You Wanted." *New York Times*, August 13, 2010.

CLASS 11: SELLING COMMITMENT DEVICES*February 19th*

(C) Fox, Emily Jane. (2012). "Dieting for Dollars." Philly.com, 18 January 2012.

Visit and familiarize yourself with www.stickk.com

CLASS 12: FOLLOW-THROUGH*February 24th*

No reading assigned.

CLASS 13: COGNITIVE DISSONANCE, CONFIRMATION BIAS AND ESCALATION OF COMMITMENT*March 26th*

(S) Tavis, C. and Aronson, E. (2007). Mistakes Were Made (but not by me): Why We Justify Foolish Beliefs, Bad Decisions, and Hurtful Acts. Harcourt Books: USA. *Introduction & Chapter 1*.

CLASS 14: THE CHALLENGER LAUNCH DECISION*March 3rd*

(S) Edmondson, A.C. & Feldman, L.R. (2002). Group Process in the Challenger Launch Decision (A). Harvard Business School Press: Cambridge, MA.

CLASS 15: BOUNDED AWARENESS, OVERCONFIDENCE, AND BOUNDED ETHICALITY*March 5th*

(S) Gladwell, M. (2009). "Cocksure: Banks, Battles, and the Psychology of Overconfidence." *The New Yorker*. July 27, 2009.

CLASS 16: WARPED BELIEFS*March 17th*

(C) Gertner, J. (2003). "The Futile Pursuit of Happiness," *The New York Times*, September 7, 2003.

CLASS 17: LIBERTARIAN PATERNALISM AND CHOICE ARCHITECTURE*March 19th*

(B) Thaler, R.H. & Sunstein, C.R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press: New Haven, CT. *Introduction, Chapter 4: When Do We Need a Nudge?, Chapter 5: Choice Architecture, & Chapter 17: Objections*.

CLASS 18: MIDTERM REVIEW*March 24th*

No reading assigned.

CLASS 19: MIDTERM EXAM*March 26th*

No reading assigned.

CLASS 20: THE WISDOM OF CROWDS*March 31st*

Reading to be announced.

CLASS 21: INFLUENCE AND NUDGING IN THE WILD I*April 2nd*

(B) Cialdini, R. (1984). Influence: The Psychology of Persuasion. Harper Collins Publishing: New York, NY. *Begin reading.*

Visit and familiarize yourself with www.ideas42.org

CLASS 22: INFLUENCE AND NUDGING IN THE WILD II*April 7th*

(B) Cialdini, R. (1984). Influence: The Psychology of Persuasion. Harper Collins Publishing: New York, NY. *Continue reading.*

(C) Issenberg, S. (2010). "Nudge the Vote." *The New York Times*, October 29, 2010.

CLASS 23: INFLUENCE AND NUDGING IN THE WILD III*April 9th*

(B) Cialdini, R. (1984). Influence: The Psychology of Persuasion. Harper Collins Publishing: New York, NY. *Continue reading.*

(C) Sullivan, J. (2013). "How Google Is Using People Analytics to Completely Reinvent HR." *TLNT*, February 26, 2013.

CLASS 24: INFLUENCE AND NUDGING IN THE WILD IV*April 14th*

(B) Cialdini, R. (1984). Influence: The Psychology of Persuasion. Harper Collins Publishing: New York, NY. *Finish reading.*

CLASS 25: IN-CLASS GROUP PROJECT PREPARATION*April 16th*

No reading assigned.

CLASS 26: FINAL PROJECT PRESENTATIONS*April 21st*

No reading assigned.

CLASS 27: FINAL PROJECT PRESENTATIONS*April 23rd*

No reading assigned.

CLASS 28: CONCLUSION*April 28th*

No reading assigned.

5. Additional Reading on Selected Course Topics

Note that much of the material from these readings will be covered during class. These readings may be helpful if you would like a refresher on a given lecture topic. However, they are not required and are likely to be most useful after attending a lecture on a given topic rather than before.

PROSPECT THEORY

Thaler, R.H. (1992). The Winner's Curse: Paradoxes and Anomalies of Economic Life. Princeton University Press: Princeton, NJ. *Chapter 6: The Endowment Effect, Loss Aversion, and Status Quo Bias*.

Camerer, Colin F. (2000). "Prospect Theory in the Wild: Evidence from the Field." In D. Kahneman and A. Tversky (eds.), Choices, Values, and Frames. Cambridge University Press: Cambridge, UK.

HEURISTICS AND BIASES

Bazerman, M.H. (2006). Judgement in Managerial Decision Making. John Wiley & Sons: USA. *Chapter 2: Common Biases (Pages 13-33, skip Q12)*.

FAIRNESS AND COOPERATION

Kahneman, D., Knetsch J.L., and Thaler R. (1986) "Fairness as a Constraint on Profit Seeking: Entitlements in the Market," *The American Economic Review*, 76(4), p.728-741.

Thaler, R.H. (1992). The Winner's Curse: Paradoxes and Anomalies of Economic Life. Princeton University Press: Princeton, NJ. *Chapter 2: Cooperation*.

SOCIAL NORMS

Thaler, R.H. & Sunstein, C.R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press: New Haven, CT. *Chapter 3: Following the Herd*.

INTERTEMPORAL CHOICE AND WANT/SHOULD CONFLICT

Thaler, R.H. (1992). The Winner's Curse: Paradoxes and Anomalies of Economic Life. Princeton University Press: Princeton, NJ. *Chapter 8: Intertemporal Choice*.

Milkman, K.L., Rogers, T., & Bazerman, M.H. (2008). "Harnessing Our Inner Angels and Demons: What We Have Learned about *Want/Should* Conflicts and How that Knowledge Can Help Us Reduce Short-Sighted Decision Making," *Perspectives on Psychological Science*, Vol. 3, 324-338.

COMMITMENT DEVICES AND MENTAL ACCOUNTING

Thaler, R.H. & Sunstein, C.R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press: New Haven, CT. *Chapter 2: Resisting Temptation*

BOUNDED AWARENESS, OVERCONFIDENCE, AND BOUNDED ETHICALITY

Russo, E.J. & Shoemaker, P.J.H. (2002). Winning Decisions: Getting it Right the First Time. Doubleday: New York. *Pages 74-89*.

Bazerman, M., & Chugh, D. (2006). Decisions without Blinders, *Harvard Business Review*. January 2006.

Banaji, M., Bazerman, M., & Chugh, D. (2003). How (Un)Ethical Are You? *Harvard Business Review*, 81(12), 56-64.

CONCLUSION

Milkman, K.L., Chugh, D., & Bazerman, M. (2008). "How Can Decision Making Be Improved?" *Perspectives on Psychological Science*, 4(4): 379-383.

Soll, J.B., Milkman, K.L., & Payne, J.W. (2015). "A User's Guide to Debiasing." In K. Gideon and G. Wu (eds.) Wiley-Blackwell Handbook of Judgment and Decision Making.