MG311 Foundations of Behavioural Decision Science

Dr. Simon Bowmaker
s.bowmaker@lse.ac.uk
Managerial Economics and Strategy Group - Department of Management
NAB 5.36

Course Description

This course introduces students to the foundations of Behavioural Decision Science: the science that explains and predicts how humans make decisions (the decision ‘process’) and how well (the decision ‘outcome’). The course will focus on the process, and unveil the subtle and sometimes unconscious influences played by the context in which decisions are faced: is there risk and uncertainty? What has been chosen in the past? Is the decision maker in a positive or negative mood? Is the decision made offline or online, from a “menu” or from memory? All of these (and more) are factors that often determine how information is searched before choosing, how decisions are made and the quality of the decision made.

The course is entirely seminar-based, and will alternate teaching with interactive activities designed to experience first-hand the process of deciding, before reviewing behavioural decision theories and evidence from lab and field studies. Teaching will cover experiments and applications across different ‘domains’ (managerial, policy, organisations, consumer, and even personal, like choice of career or a partner). The aim of the course is to offer a balanced view of the strengths and weaknesses that humans have when making any decision and cover successful interventions of “choice architecture” which are being implemented around the world in private and public organisations to help consumers and the public make it easier to make good decisions without complex systems or support. The assessment will give students the opportunity to apply their skills to spot strengths and weaknesses of a decision of their choosing, as well as to produce a “state-of-art behavioural report” that reviews in a rigorous and scholarly manner the literature and empirical evidence on a specific aspect of the intuitive decision process under scrutiny.

Teaching

25 hours of classes in the LT.
Students on this course will have a reading week in Week 6, in line with departmental policy.

Formative coursework

A short and timed group presentation (after Reading Week). You will work as a group and spot the bias in a real decision that you will select. You will give a brief group presentation of the bias and the mechanism that requires correction (via debiasing or nudging). After the presentation you will receive feedback as a group. This feedback will help you prepare for the summative assessment.

Summative assessment

Coursework (100%, 3000 words) in the ST.

Summative (due beginning of ST): The summative assessment will be a ‘Behavioural Report’ which comprises two parts.
In the first part (no more than 1000 words), you will be asked to report on the decision, the bias and the nudging or debiasing intervention designed by you and your group. In the second part of the report (no more than 2000 words), you will focus on one of the processes/aspects that you covered in the first part of the essay and complete a scholarly review on it, with reference to behavioural literature, theories and concepts. The first part of the essay will count for 50% of your mark while 50% will come from the second part. You will be required to provide full essay-style referencing. Although the summative assignment will take the decision makers’ presented in groups, all students will write both parts of the summative essays on their own and will receive an individual mark.

**Office hours:** The official office hours are: Thursday, 2 pm to 4 pm.

**Email policy:** Email only to schedule meetings or to ask questions that are not related to the academic content of the course. For questions about the readings, notes, etc. please make an appointment and show up in person.

**Timing:** In accordance with LSE tradition, lectures and classes will normally start at five minutes past the hour and finish at five minutes to the hour. Please try to arrive at the hour, so that we can start punctually. Arriving late is not recommended; the first five minutes of each lecture are usually the most important. If you do arrive late, please read the lecture notes before asking any clarifying questions, because your question might have been answered before you arrived. Be considerate; your student colleagues will appreciate it!

There will be a ten-minute break starting at around 4.15. This is for you to catch your breath and refuel for the second part of the lecture, but not much more than that. If possible, try to stay in the lecture room during the break (have a quick chat with the person next you). If you definitely need to leave the room, that is fine, but please don’t do it only for buying a snack or having a more entertaining conversation. In practice, if we cannot restart the lecture on time, we are likely to finish late.

**Indicative reading**


Course Outline

Class 1: Friday, January 18: Introduction
Behavioural decision science: rational choice theory, neoclassical economics, cognitive science, behavioural economics.

Essential reading

Additional reading

Class 2: Friday, January 25: Decision-making under Certainty
Decoy effect, compromise effect, context effects, loss aversion and endowment effect, reference point, status quo bias, framing, value function of prospect theory.

Essential reading

Additional reading

Class 3: Friday, February 1: Decision-making under Uncertainty, I
Social comparisons, satisfaction with choice, anchoring, representativeness (law of small numbers, conjunction fallacy, base-rate neglect).

Essential reading

Additional reading


**Class 4: Friday, February 8: Decision-making under Uncertainty, II**

Confirmation bias, availability, overconfidence, hindsight bias.

**Essential reading**


**Additional reading**

Kruger, Justin and David Dunning (1999), ‘Unskilled and unaware of it: How difficulties in recognizing one’s own incompetence lead to inflated self-assessments,’ *Journal of Personality and Social Psychology, 77*(6), 1121-34.

**Class 5: Friday, February 15: Decision-making under Uncertainty, III**

Expected value, expected utility, framing, bundling, mental accounting, certainty effect, probability weighting.

**Essential reading**


**Additional reading**


**Class 7: Friday, March 1: Intertemporal Choice**

Hyperbolic discounting, peak-end rule, hot-cold empathy gap, impact bias, focusing illusion.

**Essential reading**


**Additional reading**


**Class 8: Friday, March 8: Behavioural Game Theory + Group presentations**

Ultimatum game, dictator game, social preferences, fairness, trust game, beauty contest

**Essential reading**


**Additional reading**


**Class 9: Friday, March 15: Decision-Making and Language + Guest Speaker**

Linguistic-savings hypothesis

**Essential reading**


**Additional reading**


**Class 10: Friday, March 22: Libertarian Paternalism and the Nudge Agenda + Guest Speaker**

Behavioral welfare economics, asymmetric paternalism.

**Essential reading**


**Additional reading**


**Class 11: Friday, March 29: Course wrap-up + Guest Speaker**