

Business 9814B – Winter 2019**Ph.D. Special Fields Seminar: Decision Making**

Professor Neil Bendle
Office No. 2357- Tel. Number 519 661 3155
nbendle@ivey.ca

Faculty Assistant: Gina Luciani
gluciani@ivey.ca

Thursdays 1:00 pm – 4:00 pm
Location: IVEY
(12 Sessions)

COURSE DESCRIPTION

This course provides a survey of recent theoretical advances in decision-making. This includes areas at the intersection of psychology and economics such as judgment and decision making, behavioural decision theory, experimental economics and behavioural game theory. We also consider evolutionary thinking in psychology and markets and draw out the implications of this for individual decision making.

The course consists of twelve weekly three-hour seminars, during which you will review, analyze, and critically evaluate a few papers on a specific topic. The course is generally scheduled on Thursday afternoons but in any given week sessions may be rearranged as mutually convenient.

Business 9814b is a program requirement for all Ivey doctoral students with a specialization in marketing. Doctoral students from other disciplines who are interested in the intersection between psychology and economics and how this impacts business theory are strongly encouraged to consider the course as the material has been chosen to be of interest beyond marketing.

The main objective of the course is to focus on the conceptions of individual decision making rather than to teach any specific methodologies. That said in the course we will briefly review a number of methods popular with researchers in the field of decision making. These include: experiments (both psychological and economic), secondary data analysis and analytical modeling. No specific expertise in any method is expected. Students will see when each technique may be useful and be inspired to use the methods rather than be expected to come out of the course as, for example, analytical modelers.

COURSE OBJECTIVES

The course has two main objectives: (1) to expose you to the ideas in the broad field of decision-making; and (2) to allow you to develop your own ideas on a more specific research topic within this field that is of interest to you.

COURSE ACTIVITIES / GRADING / METHODS OF EVALUATION

Performance will be evaluated on the basis of discussion leadership, contribution to the class discussion, a note of decision making in the real world, and an end-of-term research paper. These will be weighted as follows:

Research Paper	40%
Discussion leadership	25%
Contribution to Discussion	25%
Decision Making in the Wild Note	<u>10%</u>
	100%

Research Paper

The main deliverable in this course is a research term paper. The purpose of this paper, in addition to its role as an evaluative tool, is to give you an opportunity to explore an issue of interest to you, and to help you develop the basis for a potential research stream. In general, this will require that you work with an Ivey faculty member on a topic of mutual interest. Consequently, it is helpful to start thinking about potential topics early in the semester. The paper will be graded by me but I may seek input from other appropriate faculty members.

Your paper should be an early stage draft of a paper suitable for submission to a major academic marketing journal, such as the Journal of Marketing. This should contain an introduction, theory and methods, and your anticipated results and conclusion. To be clear if you are discussing empirical work that you haven't completed yet you should add graphs of the expected results etc... (Just add a note so I know that this is hypothetical data for illustrative purposes only). The idea behind including "fake results" is to encourage you to think through your work. It is much easier to see the issues in a paper given a clear expected output. If you are doing an analytical piece include at least an outline of a model.

For guidance your paper should include:

- An introduction describing the problem and explaining its importance
- A review of the relevant literature, clearly establishing what is known about the phenomenon and what issues remain unresolved
- A clear statement of the research question(s) being addressed
- A clear statement of the contribution your research will make to the relevant literature and some sort of real world problem

- An explanation of your theory
- A thorough description of the methodology you used (or propose to use)
- An outline of the results (illustrative or actual)

Your paper should be less than 25 pages in length, double-spaced. With this task “could be published” is a key consideration so make the quality of the writing as high as you can.

Decision Making In The Wild

This task is to provide a short note (no more than two pages) mid semester on a decision topic outside the sphere of your academic research. For example: if you have just bought a computer you might consider how your decision making process worked. Alternatively you might want to consider the reported decision making process of a manager you have read about. The key element of this is to consider how the research we review might apply to everyday life. This is not designed to be an idea that is fully actionable into a paper – i.e. there may be insufficient theory to build upon -- but to be more about stimulating thought. (This note could inspire the research paper you write but the nature of the task means they should be quite different pieces of work). With this task you should prioritize what is interesting over what “could be published”.

EXPECTATIONS / CLASS CONTRIBUTION / ATTENDANCE

Discussion Leadership

In this course, you are expected to take a leadership role in the learning process. The primary role of the instructor is not to teach, but rather to lightly guide the discussion. To this end every week you will be asked to lead the discussion about 1 paper. This discussion should last about 30 minutes. Each class I will evaluate how you lead the discussion.

The discussion should briefly detail what the paper was about, the method used, and why the authors did what they did. Remember to ensure that the discussion covers the ideas in the paper while highlighting any major methodological issues.

You personally should have a reaction to the paper. I value expressions of personal opinion that are supported by evidence even if I don't agree. I am particularly receptive to critical viewpoints. Do you think it is interesting? Why? Why not? What would you do differently if you were doing it? Any ideas you may have for extensions are highly valued.

It is your job, not mine, to engage your colleagues in the discussion when you are leading it so be prepared to ask questions of your classmates. Often some form of handout helps bring the group in but the precise way you lead the discussion is up to you.

Contribution to the Class Discussion

Students will be expected to carry most of the discussion in the seminar. In this they should provide insights for their peers to consider and respond to. Each week I will evaluate the quality of your contribution to the discussion for those papers when you are not the discussion leader. (This is designed to ensure that students don't concentrate on "their" paper at the exclusion of all the other papers in the session.) The final contribution grade is based on an overall review of those assessments.

I value interesting insights so please try to reach for new ideas and tie disparate thoughts together. The objective of the PhD seminar is not "to be right" when you speak but to learn. It is fine to discuss issues that you don't fully understand. It is even good to be opinionated. You may love or hate papers or have strong opinions on the value of some techniques covered. I have deliberately included a range of work in this course and I personally have more sympathy with some approaches than others. It is a greater contribution to argue a well thought out position which the rest of the group disagrees with than state a worthy point everyone already noticed when they doing the reading.

Please also note this course contains a variety of perspectives, many of which seem incompatible. When reviewing a paper always try as best you can to work out why it was published where it was, i.e. which journal or discipline, and ask yourself if it would have been published elsewhere.

I consciously have mixed up the order of the weeks and even the papers in a week to show the diversity of techniques employed. You will prefer some techniques to others, feel free to share your opinions.

MATERIALS / REQUIRED READING

The materials for each session are listed below.

PLAGIARISM / ACADEMIC INTEGRITY

Scholastic offences are taken seriously and students are directed to read the appropriate policy, specifically, the definition of what constitutes a Scholastic Offence, at the following Web site:

http://www.uwo.ca/univsec/pdf/academic_policies/appeals/scholastic_discipline_grad.pdf

All required papers may be subject to submission for textual similarity review to the commercial plagiarism-detection software under license to the University for the detection of plagiarism. All papers submitted for such checking will be included as source documents in the reference database for the purpose of detecting plagiarism of papers subsequently submitted to the system. Use of the service is subject to the licensing agreement, currently between The University of Western Ontario and Turnitin.com (<http://www.turnitin.com>).

HEALTH AND WELLNESS

As part of a successful graduate student experience at Western, we encourage students to make their health and wellness a priority. Western provides several on campus health-related services to help you achieve optimum health and engage in healthy living while pursuing your graduate degree. For example, to support physical activity, all students, as part of their registration, receive membership in Western's Campus Recreation Centre. Numerous cultural events are offered throughout the year. Please check out the Faculty of Music web page <http://www.music.uwo.ca>, and our own McIntosh Gallery

<http://www.mcintoshgallery.ca>. Information regarding health- and wellness-related services available to students may be found at <http://www.health.uwo.ca>.

Students seeking help regarding mental health concerns are advised to speak to someone they feel comfortable confiding in, such as their faculty supervisor, their program director (graduate chair), or other relevant administrators in their unit. Campus mental health resources may be found at http://www.health.uwo.ca/mental_health/resources.html.

To help you learn more about mental health, Western has developed an interactive mental health learning module, found here: http://uwo.ca/health/mental_wellbeing/education/module.html. This module is 30 minutes in length and provides participants with a basic understanding of mental health issues and of available campus and community resources. Topics include stress, anxiety, depression, suicide and eating disorders. After successful completion of the module, participants receive a certificate confirming their participation.

DETAILED SESSION SCHEDULE

Week 1 Winning A Nobel Prize In Decision Making

Looks at the work of probably the most famous scholars in the field Amos Tversky and Daniel Kahneman, and Herbert Simon, forefather of field.

Readings

Simon H., (1955) A Behavioral Model of Rational Choice, *The Quarterly Journal of Economics*, 69 1 99-118

Tversky, A. & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and Biases. *Science*, 185 (4157), 1124-31.

Camerer, C., Lim, N., & Ho, T., (2005) Modeling the psychology of consumer and firm behavior with behavioral economics 43 (3) 307-331

Camerer, C., Babcock, L., Loewenstein G., and Thaler, R. (1997) Labor supply of New York City cabdrivers: One day at a time. *The Quarterly journal of economics*, 112 (2) 407-441

Daniel G. Goldstein and Gerd Gigerenzer (2002) Models of Ecological Rationality: The Recognition Heuristic, *Psychological Review* 109 (1), pg. 75-90

Shugan, S., (2006) Are consumers rational? Experimental evidence, *Marketing science*, 25 (1) 1-7

Questions

1. How does Camerer et. al.'s approach differ from Kahneman and Tversky's?
2. What is the overarching point that Goldstein and Gigerenzer are making?
3. Are consumers rational? Is Homo Economicus an accurate depiction of decision making?

Week 2: How do People Make Decisions?

This week we will look at ways people are thought to make specific decisions.

Readings

Kahneman, Daniel, and Amos Tversky (1979), "Prospect theory: An Analysis of Decision Under Risk," *Econometrica*, 47, 263-291.

Staw, B., and Hoang, H., (1995) Sunk costs in the NBA: Why draft order affects playing time and survival in professional basketball *Administrative Science Quarterly* (40)3 474-494

Cosmides; L., and Tooby, J, (1996) Are humans good intuitive statisticians after all? Rethinking some conclusions from the literature on judgment under uncertainty, *Cognition* 58 (1) 1-73

Kahneman, D, Tversky, A (1996) On the reality of cognitive illusions. *Psychological Review*, Vol 103(3), 582-591

& Gigerenzer, G. (1996) On narrow norms and vague heuristics: A reply to Kahneman and Tversky (1996). *Psychological Review*, 103 (3), 592-596, (together these count as one reading).

Shafir, E., and Leboeuf, R., (2002) *Rationality Annual Review of Psychology* 53: 491-517

Questions

4. What are the key elements of Prospect Theory?
5. Do people know they are influenced by a heuristic or bias?
6. What is a heuristic? A bias?
7. What do scholars mean when they say rational? Can we dismiss the idea of rationality?
8. Why does it matter whether humans are good intuitive statisticians?
9. What do you think of Gigerenzer's critique of the heuristics and biases program of research?

Week 3: Evolutionary Thinking About Decision Making

This week we consider evolutionary ideas about decision-making.

Readings

Martie G. Haselton, Gregory A. Bryant, Andreas Wilke, David A. Frederick, Andrew Galperin, Willem E. Frankenhuis, and Tyler Moore (2009). Adaptive Rationality: An Evolutionary Perspective on Cognitive Bias. *Social Cognition: Vol. 27, Special Issue: Rationality Restored*

Trivers, R., (1971) Evolution of Reciprocal Altruism, *The Quarterly Review of Biology*, Vol. 46, No. 1. (1971), pp. 35-57

Cosmides, L., and Tooby, J., (1994) Better Than Rational: Evolutionary Psychology and the Invisible Hand, *The American Economic Review*, 84 (2) p327-332

Griskevicius, V., Cantu, S, & Van Vugt, M. (2012). The evolutionary bases for sustainable behavior: Implications for marketing, policy, and social entrepreneurship, *Journal of Public Policy and Marketing*, Vol. 31 (1) Spring 2012, 115–128

Confer, Jaime C.; Easton, Judith A.; Fleischman, Diana S.; Goetz, Cari D.; Lewis, David M. G.; Perilloux, Carin; Buss, David M. (2010) Evolutionary psychology: Controversies, questions, prospects, and limitations. *American Psychologist*, Vol 65(2), Feb-Mar 2010, 110-126.

Buller, D., (2008) Four Fallacies of Pop Evolutionary Psychology, *Scientific American*, January 2009

Questions

1. What do evolutionary psychologists have to say to economists?
2. Is Evolutionary Psychology Racist and/or Sexist?
3. Critics argue evolutionary psychology is not testable? Is this a valid criticism?
4. Thaler said that behavioural economics would be successful when it was just called economics. Will evolutionary psychology ever just be psychology?

Week 4: Trust and Morality

This week considers the debate about decision making a broader social context. We also introduce the use of economic experiments highlighting the different approaches used by people in different fields.

Readings

Berg, J., Dickhaut, J., McCabe, K., (1995) Trust, Reciprocity, and Social History, *Games and Economic Behavior* Volume 10, Issue 1, July 1995, Pages 122–142

Joseph Henrich, Robert Boyd, Samuel Bowles, Colin Camerer, Ernst Fehr, Herbert Gintis and Richard McElreath (2000) In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies *The American Economic Review* Vol. 91, No. 2, pp. 73-78

Nancy R. Buchan, Rachel T.A. Croson, Sara Solnick (2008) Trust and gender: An examination of behavior and beliefs in the Investment Game *Journal of Economic Behavior & Organization* 68 466–476

Mazar, N, Amir, O and Ariely, D (2008) The Dishonesty of Honest People: A Theory of Self-Concept Maintenance, *Journal of Marketing Research* Volume 45, Issue 6, p. 633-644.

Fehr, E., and Gächter, S, (2000) Cooperation and punishment in public goods experiments *The American economic review* 90 4 980-994

Kramer, R. (2002) When Paranoia Makes Sense, *Harvard Business Review*, July 2002

Questions

1. Are economists just bad experimenters?
2. Should you pay experimental subjects?
3. Does this research make you feel better or worse about people?
4. Is cooperation a good thing?
5. How do behavioural assumptions influence strategy?

Week 5: JDM Classics and Economic Implications

We look at popular topics of study in judgment and decision making and their implications for the operation of markets.

Readings

Thaler, Richard (1985) "Mental Accounting and Consumer Choice," *Marketing Science*, 4 (Summer), 199-214.

Knetsch, J.L. (1989), "The Endowment Effect and Evidence of Nonreversible Indifference Curves," *The American Economic Review*, 79 (5), 1277-1284.

List, J., (2003) Does Market Experience Eliminate Market Anomalies? *The Quarterly Journal of Economics* 118 (1) 41-71.

Heath, Chip and Jack B. Soll (1996), "Mental Budgeting and Consumer Decisions," *Journal of Consumer Research*, 23 (June), 40-52.

Winer, R (1986) A Reference Price Model of Brand Choice for Frequently Purchased Products *Journal of Consumer Research* Vol. 13, No. 2 (Sep., 1986), pp. 250-256

Tversky, Amos, Kahneman, Daniel (1992) *Advances in Prospect Theory: Cumulative Representation of Uncertainty*, 5, (4), pages 297-323

Questions

- 1) Why does the endowment effect matter to economists?
- 2) How do List's methods differ from other researchers?
- 3) What does the cumulative part add to prospect theory add to Prospect Theory?
- 4) What is a "mental account? How does it work?
- 5) What is a reference price? Do consumers use them? How would you test this?

Week 6: Social Preferences

Here we consider what happens when people have preferences that include other people's behaviour and outcomes as a determinant of their utility.

Readings

Amaldoss, W., and Jain, S., (2005) Pricing of conspicuous goods: A competitive analysis of social effects, Journal of marketing research 42 (1) 30-42

Cui, T., Raju, J., Zhang, J., (2007) Fairness and Channel Coordination, Management Science August 2007 vol. 53 no. 8

Sundie, J., Kenrick, D., Griskevicius, V., Tybur, J., Vohs, K., Beal, D., (2011) Peacocks, Porsches, and Thorstein Veblen: Conspicuous Consumption as a Sexual Signaling System, Journal of Personality and Social Psychology, 100 (4), 664-680

Benedikt Herrmann, Christian Thöni, Simon Gächter, Antisocial Punishment Across Societies Science 7 March 2008: Vol. 319 no. 5868 pp. 1362-1367

Herbert Gintis, Punishment and Cooperation, Science 7 March 2008: 1345-1346

Gintis, H., Bowles, S., Boyd, R. and Fehr E., Moral Sentiments and Material Interests: Origins, Evidence and Consequences by Chapter 1 in Moral Sentiments and Material Interests: The Foundations of Cooperation in Economic Life from Gintis, H., Bowles, S., Boyd, R. and Fehr E. (2005) MIT press.

Questions

- 1) What exactly are Amaldoss and Jain testing?*
- 2) Does this work help explain puzzles or just give another way to complicate analytical models?*
- 3) What is optimization in a world of social preferences?*
- 4) Is selfishness vital to rationality? If not why not?*

Week 7: Temporal Issues

Consistency matters to the efficient operation of markets and inconsistency is often suggested as a source of consumer welfare problems, (failure to save for retirement, risky health behaviours, etc...). What does this research tell us about the effect of time on decisions?

Readings

Zauberman, Gal (2003), "The Intertemporal Dynamics of Consumer Lock-In," *Journal of Consumer Research*, 30 (December), 405-419.

Hoffrage, U., Hertwig, R., Gigerenzer, G. (2000) Hindsight bias: A by-product of knowledge updating? *Journal of Experimental Psychology: Learning, Memory, and Cognition*, 26 (3), 566-581.

Della Vigna, S., and Malmendier, U., (2006) Paying not to go to the gym, *The American economic review* 96 (3) 694-719

Van den Bergh, B., Dewitte, S., & Warlop, L. (2008). Bikinis instigate generalized impatience in intertemporal choice. *Journal of Consumer Research*, 35, 85-97.

Vanessa M. Patrick, Deborah J. MacInnis and C. Whan Park, (2007), Not as Happy as I Thought I'd Be? Affective Misforecasting and Product Evaluations, *Journal of Consumer Research*, Vol. 33, No. 4, March 2007

Questions

- 1) What effect does time have on consumers from a psychological perspective?
- 2) What does the Hindsight bias tell us about strategy research?
- 3) Why does the mechanism of the hindsight bias matter?
- 4) Could the idea of temporal discounting influence your own areas of research interest? How?

Week 8: Preference and Public Policy

Here we discuss what makes an “acceptable” preference and the public policy implications.

Readings

Eric J. Johnson and Daniel Goldstein, Do Defaults Save Lives?, *Science*, New Series, Vol. 302, No. 5649 (Nov. 21, 2003), pp. 1338-1339

Leonard Lee, On Amir, and Dan Ariely (2009) In Search of Homo Economicus: Cognitive Noise and the Role of Emotion in Preference Consistency *Journal of Consumer Research* 36 (2)

Krishna, A., (2011) Can supporting a cause decrease donations and happiness? The cause marketing paradox. *Journal of Consumer Psychology*, 21, 338-345

Bowles, S., and Gintis, H., (2011) Parochialism, Altruism and War, Chapter 8 from *A Cooperative Species* by Bowles, S., and Gintis, H., Princeton University Press

Kurzban, R., Tooby, J., and Cosmides, L., (2001). Can race be erased? Coalitional computation and social categorization, *PNAS* December 18, 2001 vol. 98 no. 26

Questions

- 1) Where do preferences come from?
- 2) What are the implications of unstable preferences?
- 3) What are the public policy/political implications of work like that on defaults?

Week 9: Financial Decision Making

This week we tie things together by trying to formulate our own views of decision making, specifically what makes something rational.

Readings

Alchian, A., (1950) Uncertainty, evolution, and economic theory, *Journal of political economy* 58 (3) 211-221

Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profits, *The New York Times Magazine*, September 13, 1970. Consider the role of individual decision-making.

Benartzi, S., and Thaler, R., (1995) Myopic Loss Aversion and the Equity Premium Puzzle *The Quarterly journal of economics* 110 (1)

Smith, V., (2003) Constructivist and ecological rationality in economics, *American economic review*, 93 (3) 465-508

Griskevicius, V., Tybur, J. M., Ackerman, J. M., Delton, A. W., Robertson, T. E., & White, A. E. (2011, July 18). The Financial Consequences of Too Many Men: Sex Ratio Effects on Saving, Borrowing, and Spending. *Journal of Personality and Social Psychology*.

Ulrike Malmendier, Geoffrey Tate, and John Yan (2011) Overconfidence and Early-Life Experiences: The Effect of Managerial Traits on Corporate Financial Policies, *Journal of Finance*, Vol. 66, No. 5 (2011), pp. 1687-1733

Questions

1. What impact do you think evolutionary thinking has made on financial research?
2. What is Alchian's view of competition and how does this relate to individual decision-making?
3. What decision making assumptions underpin Smith's view of markets? Smiths?
4. Do psychologists have a big role in financial decision making?
5. What performance metrics should you use?

Week 10: Thinking About Others

This week considers the how decision-making research matters in medicine.

Readings

Armstrong, J. S., and Collopy, F., (1996) Competitor orientation: Effects of objectives and information on managerial decisions and profitability, *JMR* 33 (2) 188-199

Armstrong, J. S., and Kesten C. Green. 2007. Competitor-oriented objectives: The myth of market share. *International Journal of Business* 12, (1) (Winter): 117-136

Bendle, N., and Vandenbosch, M., (2014) Competitor Orientation and the Evolution of Business Markets, *Marketing Science*, 33 (40)

Ho, T., Camerer, C. and Keith Weigelt (1998). Iterated Dominance and Iterated Best Response in Experimental p-Beauty Contests. *American Economic Review*, 88(4), 947.

McKelvey, R.D., and Palfrey, T.R. 1995 Quantal response equilibria for normal form games, *Games and Economic Behavior*, 10,6-38

Questions

1. If is just imperfect markets where non-standard behaviours survive?
2. How can we predict others? When is the assumption that they will act like a standard game theory prediction reasonable?
3. Why do people love market share based measures?

Week 11: Context and Decisions

This week we consider decisions-making in specific decision contexts.

Readings

Lau, R., and Redlawsk D. (2001) Advantages and disadvantages of cognitive heuristics in political decision making, *American Journal of Political Science* 45 (4) 951-971

Hedgcock, W., Rao, A., and Chen, A., (2009) Could Ralph Nader's Entrance and Exit Have Helped Al Gore? The Impact of Decoy Dynamics on Consumer Choice, *Journal of Marketing Research*, 46, (3) 330-343

Camerer, C. and Lovallo, D, (1999) Overconfidence and excess entry: An experimental approach, *The American Economic Review*, 89 (1), 306-318

Alan S. Gerber, Donald P. Green And Christopher W. Larimer (2008) Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment, February 2008, 102 (1) p.33-48

Questions

1. Does context matter to decision making? In what ways?
2. How can we test context?
3. How might the overconfident perform in markets?
4. Is there anything special about entrepreneurs?

Week 12: Business Decision Making

Here we consider how we make in business and how to improve decision making.

Readings

Ulrich Hoffrage, Samuel Lindsey, Ralph Hertwig and Gerd Gigerenzer 2000 Communicating Statistical Information, *Science*, Vol. 290, No. 5500 (Dec. 22, 2000), pp. 2261-2262

Cohen, March & Olsen (1972), *ASQ*, 17 (1) A Garbage Can Model of Organizational Choice, 1-25.

Bertrand, Marianne , Dean Karlan, Sendhil Mullainathan, Eldar Shafir, Jonathan Zinman (2010), What's Advertising Content Worth? Evidence from a Consumer Credit Marketing Field Experiment, 125(1) p.263-306

Smith, N. Craig, Daniel G. Goldstein, and Eric J. Johnson (2013) Choice Without Awareness: Ethical and Policy Implications of Defaults. *Journal of Public Policy & Marketing*: Fall 2013, Vol. 32, No. 2, pp. 159-172.

Questions

- 1) How can we improve decision making?
- 2) Is business decision making special?
- 3) What ethical considerations should those seeking to influence decision making worry about?