

**The Psychology of Economics 2015
Course Syllabus**

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Course description

Background

This course investigates the psychological and economic processes underlying individual and social decision-making. We will develop an understanding of the differences between major theories and research practices in economics and psychology. We will learn when and why economic theories fail descriptively, and what alternative theories of decision-making have been proposed. Finally, we will address how the findings from psychology and economics can be applied to improve public policy and real-life decision-making.

Learning objectives

- Recall, discuss, and evaluate the basic ideas and findings from the scientific papers discussed in the course
- Give a reasoned opinion of fundamental issues and debates on economic decision making that were discussed during the lectures
- Apply these ideas and findings to the formulation of solutions to real-life problems (e.g., problems in organizational behavior, medical decision-making, and public policy)

Course structure

There are a total of twelve class meetings. Each meeting consists of the following four parts:

1. 10-15 minute quiz on the assigned readings.
Students who arrive late to class will not receive extra time for the quizzes.
2. 30-minute group presentation on an additional reading.
3. 15-minute break.
4. 45-minute class discussion.

Although attendance is not mandatory, please note that it will be difficult to pass this course without attending every lecture. Out of respect for your fellow students, please do not use technology for personal reasons during presentations or class discussions. Please also note that audio and video recordings of the course meetings are not permitted.

Course requirements

Readings, attendance, and discussion

To succeed in this course, it is important to keep up with the assigned readings. Please note that many of the readings are lengthy and complex, especially the articles published in the *Journal of Political Economy*, the *Journal of Personality and Social Psychology*, and *Organizational Behavior and Human Decision Processes*. It is a good idea to plan in advance (and read ahead) for periods when other deadlines may interfere with your ability to follow the readings. It is also important that students are prepared to discuss the readings in class. Before

each class meeting, think about what is interesting (or not so interesting) about the assigned readings. Some articles also include “Supplemental Materials” that describe the experimental methods and results in more detail. You are also responsible for reading and understanding the content of Supplemental Materials.

If you have read an article and still have some questions about the results or method, it is very likely that other students have similar questions. Asking questions during class will contribute to your own learning and the learning of other students! You can also email your questions to the instructor before the class meeting, in which case the instructor will make sure that your question is covered during the class discussion!

Individual assessment (60% of final grade).

60% of the final grade for this course is based on individual assessments (daily reading quizzes and a final exam).

Reading quizzes (30% of final grade). At the beginning of each class, there will be a 10-15 minute quiz on the assigned readings. Each quiz will contain several multiple-choice or short-answer questions. At the end of the course, students will automatically drop their lowest quiz grade. There will *not* be a quiz on the first day of class (*1. Introduction on 31 August*). This means that the quiz grade will be based on the weighted average of each student’s top 10 (out of 11 in total) quiz scores.

Final exam (30% of final grade). There will be a final exam at the end of the course (26 October). This exam tests your ability to recall, apply, and formulate an opinion on the contents of the course. The exam consists of three essay questions designed to test your knowledge and understanding of the major themes of the course. These questions will be based on the material from all of the course meetings.

The exam also includes a section of multiple-choice and fill-in-the-blank questions based on the presentation readings. These questions will count for 10-20% of the final exam grade. The final exam will not feature multiple-choice / fill-in-the-blank questions on the mandatory readings. Practice essay questions will be posted online one week before the exam.

On the final exam, you will be asked to write essay questions that compare the results of different papers. It is not necessary to memorize the full citation of each paper. However, you should be able to refer to each paper by the name of the first author and year of publication (e.g., Evans, 2015).

Resit. The resit for the “individual assessment” portion of the final grade consists of a comprehensive exam that covers all elements of the course together (the quizzes and the final exam). The resit exam is scheduled for 4 January, 2016.

Group assessment (40% of final grade)

During this course, you will complete two assignments with a group of 4-5 students. These assignments will count for a total of 40% of the final grade. Students are responsible for finding a group before or during the first class meeting.

Academic research proposal (30% of final grade). Each group will write a proposal to conduct a laboratory experiment that adds to our understanding of how people make economic decisions. The academic research proposal is due on Friday, 16 October at 17.00. For more information, please refer to the “Academic Research Proposal” document.

Group presentations (10% of final grade). Each group is also responsible for a 30-minute presentation on one of the “Supplemental Readings”. For more information, please refer to the “Group Presentation Guidelines” document.

Resit. Groups that intend to resit the “group assessment” portion of the final grade must prepare an academic research proposal on an entirely new topic. This assignment counts as a resit for both the “academic research proposal” and the “group presentation.” Because the resit assignment counts for both components of the group assessment grade, the research proposal should be expanded in length (3000 to 3500 words; including 18 or more references). The deadline for submitting the resit proposal is 4 January, 2016.

For students without groups. Students without groups have the option of completing the “group assignment” portion of the course individually. These students are expected to complete an academic research proposal individually; however, this assignment will count for the entire group assessment portion of the grade (40% of the final grade).

Important Course Dates

31 August. First class meeting (14:45-16:30, WZ105)

28 and 30 September. No class meetings. Groups should schedule meetings for research proposal feedback.

16 October. Due date for the academic research proposal (17.00)

26 October. Final exam

4 January. Resit exam and due date for the research proposal resit.

Course Schedule and Reading List

Readings that are labeled with an asterisk are optional. These are additional resources (news articles, blog posts, short videos, and podcast episodes) that may add to your understanding of the assigned readings.

- 1. Introduction** **Monday, 31 August, 14:45-16:30, WZ105**
Ariely, D., & Norton, M. I. (2007). Psychology and experimental economics: A gap in abstraction. *Current Directions in Psychological Science*, 16, 336-339.
*Grant, A. (2014) Why behavioral economics is cool, and I'm not. *Blog post retrieved from http://www.huffingtonpost.com/adam-grant/why-behavioral-economics_b_5491960.html*

- 2. Prospect Theory** **Wednesday, 2 September, 12:45-14:30, WZ105**
Kahneman, D., & Tversky, A. (1984). Choices, values, and frames. *American Psychologist*, 39, 341-350.
Camerer, C. F. (2004). Prospect theory in the wild: Evidence from the field. In C. F. Camerer, G. Loewenstein, & M. Rabin, (Eds.), *Advances in Behavioral Economics*, (pp. 148-161). Princeton University Press.

- 3. The endowment effect** **Monday, 7 September, 14:45-16:30, WZ105**
Kahneman, D., Knetsch, J. L., & Thaler, R. H. (1990). Experimental tests of the endowment effect and the Coase theorem. *Journal of Political Economy*, 1325-1348.
Morewedge, C. K., & Giblin, C. E. (2015). Explanations of the endowment effect: an integrative review. *Trends in Cognitive Sciences*, 20, 1-10.
*The Economist (2012). The endowment effect.
<http://www.economist.com/node/11579107>

- 4. Anchoring and adjustment** **Wednesday, 9 September, 12:45-14:30, WZ105**
Epley, N., & Gilovich, T. (2001). Putting adjustment back in the anchoring and adjustment heuristic: Differential processing of self-generated and experimenter-provided anchors. *Psychological Science*, 12, 391-396.
Critcher, C. R., & Gilovich, T. (2008). Incidental environmental anchors. *Journal of Behavioral Decision Making*, 21, 241-251.

- 5. Loss aversion** **Monday, 14 September, 14:45-16:30, WZ105**
Polman, E. (2012). Self–other decision making and loss aversion. *Organizational Behavior and Human Decision Processes*, 119, 141-150.
Walasek, L., & Stewart, N. (2015). How to make loss aversion disappear and reverse: Tests of the decision by sampling origin of loss aversion. *Journal of Experimental Psychology: General*, 144, 7-11.

- 6. Cognitive ability** **Wednesday, 10 September, 12:45-14:30, WZ105**
Frederick, S. (2005). Cognitive reflection and decision making. *Journal of Economic Perspectives*, 25-42.
Peters, E., Västfjäll, D., Slovic, P., Mertz, C. K., Mazzocco, K., & Dickert, S. (2006). Numeracy and decision making. *Psychological Science*, 17, 407-413.
- 7. Social Value Orientation** **Monday, 21 September, 14:45-16:30, WZ105**
Van Lange, P. A. (2000). Beyond self-interest: A set of propositions relevant to interpersonal orientations. *European Review of Social Psychology*, 11, 297-331.
Fiedler, S., Glöckner, A., Nicklisch, A., & Dickert, S. (2013). Social Value Orientation and information search in social dilemmas: An eye-tracking analysis. *Organizational Behavior and Human Decision Processes*, 120, 272-284.
- 8. Unethical behavior** **Wednesday, 23 September, 12:45-14:30, WZ105**
Shalvi, S., Dana, J., Handgraaf, M. J., & De Dreu, C. K. (2011). Justified ethicality: Observing desired counterfactuals modifies ethical perceptions and behavior. *Organizational Behavior and Human Decision Processes*, 115, 181-190.
Kouchaki, M., & Smith, I. H. (2014). The morning morality effect: The influence of time of day on unethical behavior. *Psychological Science*, 0956797613498099.
- There are no class meetings on 28 and 30 September. Please take this opportunity to work on your academic research proposal and schedule a feedback meeting with the instructor.
- 9. Intuitive cooperation** **Monday, 5 October, 14:45-16:30, WZ105**
Rand, D. G., Greene, J. D., & Nowak, M. A. (2012). Spontaneous giving and calculated greed. *Nature*, 489, 427-430.
Peysakhovich, A., & Rand, D. G. (in press). Habits of virtue: creating norms of cooperation and defection in the laboratory. *Management Science*.
*Radiolab (2014). The golden rule. <http://www.radiolab.org/story/golden-rule/>
- 10. Field experiments** **Wednesday, 7 October, 12:45-14:30, WZ105**
Gneezy, A., Gneezy, U., Riener, G., & Nelson, L. D. (2012). Pay-what-you-want, identity, and self-signaling in markets. *Proceedings of the National Academy of Sciences*, 109, 7236-7240.
Yoeli, E., Hoffman, M., Rand, D. G., & Nowak, M. A. (2013). Powering up with indirect reciprocity in a large-scale field experiment. *Proceedings of the National Academy of Sciences*, 110, 10424-10429.

11. Trust

Monday, 12 October, 14:45-16:30, WZ105

Dunning, D., Anderson, J. E., Schlösser, T., Ehlebracht, D., & Fetchenhauer, D. (2014). Trust at zero acquaintance: More a matter of respect than expectation of reward. *Journal of Personality and Social Psychology*, 107, 122-141.

Evans, A. M., & Krueger, J. I. (2014). Outcomes and expectations in dilemmas of trust. *Judgment and Decision Making*, 9, 90-103.

**12. Detecting
trustworthiness**

Wednesday, 14 October, 12:45-14:30, WZ105

DeSteno, D., Breazeal, C., Frank, R. H., Pizarro, D., Baumann, J., Dickens, L., & Lee, J. J. (2012). Detecting the trustworthiness of novel partners in economic exchange. *Psychological Science*.
0956797612448793.

Bonnefon, J. F., Hopfensitz, A., & De Neys, W. (2013). The modular nature of trustworthiness detection. *Journal of Experimental Psychology: General*, 142, 143-150.

No lectures are scheduled for the dates of October 19 and 21. Please save these dates in case class meetings need to be rescheduled.

Supplemental readings

Questions about the supplemental readings will not be included on the daily reading quizzes. However, the final exam will include multiple choice and fill-in-the-blank questions related to these readings. These questions will count for 10-20% of the final exam score.

- 2. Prospect Theory** Keysar, B., Hayakawa, S. L., & An, S. G. (2012). The foreign-language effect thinking in a foreign tongue reduces decision biases. *Psychological Science*, 23, 661-668.
- 3. The endowment effect** Reb, J., & Connolly, T. (2007). Possession, feelings of ownership, and the endowment effect. *Judgment and Decision Making*, 2, 107-114.
- 4. Anchoring and adjustment** Mason, M. F., Lee, A. J., Wiley, E. A., & Ames, D. R. (2013). Precise offers are potent anchors: Conciliatory counteroffers and attributions of knowledge in negotiations. *Journal of Experimental Social Psychology*, 49, 759-763.
- 5. Loss aversion** Hochman, G., & Yechiam, E. (2011). Loss aversion in the eye and in the heart: The autonomic nervous system's responses to losses. *Journal of Behavioral Decision Making*, 24, 140-156.
- 6. Cognitive ability** Kleber, J., Dickert, S., Peters, E., & Florack, A. (2013). Same numbers, different meanings: How numeracy influences the importance of numbers for pro-social behavior. *Journal of Experimental Social Psychology*, 49, 699-705.
- 7. Social Value Orientation** Karagonlar, G., & Kuhlman, D. M. (2013). The role of social value orientation in response to an unfair offer in the ultimatum game. *Organizational Behavior and Human Decision Processes*, 120, 228-239.
- 8. Unethical behavior** Weisel, O., & Shalvi, S. (2015). The collaborative roots of corruption. *Proceedings of the National Academy of Sciences*, 201423035.
- 9. Intuitive cooperation** Rand, D. G., & Epstein, Z. G. (2013). Risking Your Life without a Second Thought: Intuitive Decision-Making and Extreme Altruism. *PLoS one*, 9, e109687-e109687.
- 10. Field experiments** Ernest-Jones, M., Nettle, D., & Bateson, M. (2011). Effects of eye images on everyday cooperative behavior: a field experiment. *Evolution and Human Behavior*, 32, 172-178.
- 11. Trust** Malhotra, D., & Murnighan, J. K. (2002). The effects of contracts on interpersonal trust. *Administrative Science Quarterly*, 47, 534-559.
- 12. Detecting trustworthiness** ten Brinke, L., Stimson, D., & Carney, D. R. (2014). Some evidence for unconscious lie detection. *Psychological Science*, 0956797614524421.