

Psychology 458 Winter 2013
The Psychology of Economic Decisions
 Wednesdays 12:30 – 2:20pm, HH 334

Instructor: Derek Koehler (dkoehler@uwaterloo.ca; office PAS 4050; ext. 35013).

Throughout our lives we are faced with difficult economic decisions, both major (selecting a pension plan) and minor (buying a new microwave). How do people make such decisions, and are there ways in which their decisions could be improved? Psychologists and economists have developed an increasingly sophisticated and influential depiction of the processes by which people make choices under conditions of uncertainty and conflicting goals. This seminar provides a survey of recent research on the psychology of economic decision making, with an emphasis on the ways in which people's financial decisions systematically deviate from those expected under a "rational" economic analysis.

Each week we will read and discuss three original research articles on a common topic, with a focus on generating new research ideas based on the work reported in the articles.

Course requirements are as follows.

Discussion Leadership

Each assigned reading will have an associated discussion leader. The leader is asked to open discussion of the assigned article by presenting a very brief (2-minute) overview of the main hypothesis and a selective review of findings reported in the article. This is not intended to be a formal presentation (e.g., using Powerpoint), but rather just a brief reminder for the rest of us of the key results reported in the article. A lottery system will be used to assign a discussion leader to each article we will be reading.

Weekly Assignments: Study Proposals

Students will be asked, for an assigned reading each week, to produce a one-page description of a follow-up study (typically an experiment) that could further the investigation in an informative way, such as testing an alternative interpretation, establishing the generalizability or boundary conditions of the results reported in the target article, or addressing an unresolved issue raised by the original study.

Development of these study proposals (and discussion of them in class) is the central focus of this course, so it is expected that some considerable time and thought be put into them each week. The critical mindset required to produce a good study proposal is an important research skill, and in turn requires a different approach to reading the target article. (You'll probably want to read the article at least twice, once for a basic understanding of what the authors did and what they concluded from their research, and a second time with a greater focus on what might have been done differently and how that might have affected the conclusions drawn from the study.)

Your proposal should follow a fixed format with the following headings: **Claim** (what is the novel research idea you are testing?), **Study** (describe the proposed study to test your claim), **Hypothesis** (describe the expected result of your proposed study if your claim is correct), **Implications** (what would this study tell us, more generally, about human decision making?). An example study proposal has been posted on the course website on LEARN.

What matters as much as the study you propose is the argument you make for its usefulness. Top marks will go to those papers that provide a clear, compelling rationale for why the proposed follow-up study would be informative. There are many, many possible follow-up studies that could be conducted; your task is to make a compelling case for the one you have proposed. Avoid proposing follow-up studies relying on formulaic changes to methodology (e.g., increased sample size, use of more realistic stimuli, change in subject population) unless a clear case can be made for why it would help to address some interesting research question.

Each study proposal must be no more than one page long. (The ability to write concisely is also an important research skill.) Single spacing is acceptable, but please use a reasonably large font in that case and space between paragraphs. One page is not a lot of space, obviously, so do not waste any of it summarizing the target article—you can safely assume that your reader is familiar with the article.

Students will be asked to share their proposed study with the rest of the class. It is intended that discussion of these proposed studies will be the main focus of discussion in the seminar. Students will be randomly assigned to a letter group (A, B, or C) indicating the target article for which they should write their study proposal, so that we have an approximately equal number of study proposals to discuss in class for each assigned reading. **Discussion leaders each week should produce a study proposal for the article they will be presenting in class.**

Study proposals are due in class the day they are discussed. Penalties will apply to late submissions. The worst mark across the 11 weekly assignments will be dropped in computing final grades.

In-Class Participation

Students are expected to actively contribute to the seminar discussion each week. This means not only sharing your study proposal, but also commenting on the proposals of other students, and contributing to the discussion of articles other than the one for which you wrote a study proposal. You are, of course, expected to have read all the assigned articles, not just the one on which you based your study proposal.

By definition, you need to attend the seminar in order to participate in the discussion. Absences (except in cases of documented medical or family emergencies) will result in loss of participation credit. If you do have to miss a class, you can still submit your study proposal (due before the class begins) by e-mail to the instructor, so that you do not lose credit for the assignment as well as for participation.

Evaluation

Final marks will be based on the quality of your study proposals, your contributions to the discussion each week, and your effectiveness when acting as discussion leader. There is no final paper requirement. Instead, the expectation is that you will set aside a substantial amount of time each week to carefully read the assigned articles, write your study proposal, and come to class fully prepared to discuss the assigned readings.

study proposals (best 10 @ 8% each)	80%
participation and discussion leadership	20%

Schedule and Readings

All readings can be downloaded from the Psych 458 site on LEARN. The letter at the end of each article in the reading list below indicates for which group, A, B, or C, it is the target for their study proposal.

Week 1 (January 9): **Introduction**

Overview of normative and descriptive models of decision making

Week 2 (January 16): **Loss Aversion**

Haigh, M. S., & List, J. A. (2005). Do professional traders exhibit myopic loss aversion? An experimental analysis. *Journal of Finance*, 60, 523-534. **A**

Morewedge, C. K., Shu, L.L., Gilbert, D. T., & Wilson, T. D. (2009). Bad riddance or good rubbish? Ownership and not loss aversion causes the endowment effect. *Journal of Experimental Social Psychology*, 45, 947-951. **B**

Knutson, B., Samanez-Larkin, G. R., Kuhnen, C. M. (2011). Gain and loss learning differentially contribute to life financial outcomes. *PLoS ONE*, 6, e24390. **C**

Week 3 (January 23): **Risk Attitudes and Anomalies**

Simonsohn, U. (2009). Direct risk aversion: Evidence from risky prospects valued below their worst outcome. *Psychological Science*, 20, 686-692. **C**

Song, H., & Schwarz, N. (2009). If it's difficult to pronounce, it must be risky. *Psychological Science*, 20, 135-138. **A**

Chandler, J., & Pronin, E. (2012). Fast thought speed induces risk taking. *Psychological Science*, 23, 370-374. **B**

Week 4 (January 30): **Framing and Mental Accounting**

LeBoeuf, R., & Shafir, E. (2003). Deep thoughts and shallow frames: On the susceptibility to framing effects. *Journal of Behavioral Decision Making*, 16, 77-92. **B**

Frederick, S., Novemsky, N., Wang, J., Dhar, R., & Nowlis, S. (2009). Opportunity cost neglect. *Journal of Consumer Research*, 36, 553-61. **C**

Keysar, B., Hayakawa, S., and An, S. G., (2012). The foreign language effect: Thinking in a foreign tongue reduces decision biases. *Psychological Science*, 23, 661-668. **A**

Week 5 (February 6): **Preference Construction**

Ariely, D., Loewenstein, G., & Prelec, D. (2003). Coherent arbitrariness: Stable demand curves without stable preferences. *Quarterly Journal of Economics*, 118, 74-105. **A**

Alter, A. L., & Oppenheimer, D. M. (2008). Easy on the mind, easy on the wallet: The roles of familiarity and processing fluency in valuation judgments. *Psychonomic Bulletin & Review*, 15, 985-990. **B**

Ungemach, C., Stewart, N., & Reimers, S. (2011). How incidental values from the environment affect decisions about money, risk, and delay. *Psychological Science*, 22, 253-260. **C**

Week 6 (February 13): **Anticipating Future Experiences**

- Hsee, C. K., & Zhang, J. (2004). Distinction bias: Misprediction and mischoice due to joint evaluation. *Journal of Personality and Social Psychology*, 86, 680-695. **C**
- Kermer, D. A., Driver-Linn, E., Wilson, T. D., & Gilbert, D. T. (2006). Loss aversion is an affective forecasting error. *Psychological Science*, 17, 649-653. **A**
- Hsee, C. K., Zhang, J., Cai, C. F., & Zhang, S. (in press). Over-earning. *Psychological Science*. **B**

Week 7 (February 27): **Self-Control**

- Ariely, D., & Wertenbroch, K. (2002). Procrastination, deadlines, and performance: Self-control by precommitment. *Psychological Science*, 13, 219-224. **B**
- Nordgren, L. F., van Harreveld, F., & van der Pligt, J. (2009). The restraint bias: How the illusion of self-restraint promotes impulsive behavior. *Psychological Science*, 20, 1523-1528. **C**
- Tuk M. A., Trampe D., & Warlop L. (2011). Inhibitory spillover: Increased urination urgency facilitates impulse control in unrelated domains. *Psychological Science*, 22, 627-633. **A**

Week 8 (March 6): **Intuition and Deliberation**

- Alter, A. L., Oppenheimer, D. M., Epley, N., & Eyre, R. N. (2007). Overcoming intuition: Metacognitive difficulty activates analytic reasoning. *Journal of Experimental Psychology: General*, 136, 569-576. **A**
- Masicampo, E. J., & Baumeister, R. F. (2008). Toward a physiology of dual-process reasoning and decision making. *Psychological Science*, 19, 255-260. **B**
- De Neys, W., Vartanian, O., & Goel, V. (2008). Smarter than we think: When our brains detect that we are biased. *Psychological Science*, 19, 483-489. **C**

Week 9 (March 13): **Affect I: Riskless Choice**

- Hsee, C. K., & Rottenstreich, Y. (2004). Music, pandas, and muggers: On the affective psychology of value. *Journal of Experimental Psychology: General*, 133, 23-30. **C**
- Lerner, J. S., Small, D. A., and Loewenstein, G. (2004). Heart strings and purse strings: Carry-over effects of emotions on economic transactions. *Psychological Science*, 15, 337-341. **A**
- Lerner, J. S., Li, Y., & Weber, E. U. (in press). The financial costs of sadness. *Psychological Science*. **B**

Week 10 (March 20): **Affect II: Risky Choice**

- Rottenstreich, Y., & Hsee, C. K. (2001). Money, kisses, and electric shocks: On the affective psychology of risk. *Psychological Science*, 12, 185-190. **B**
- Shiv, B., Loewenstein, G., Bechara, A., Damasio, H., & Damasio, A.R. (2005). Investment behavior and the negative side of emotion. *Psychological Science*, 16, 435-439. **C**
- Levav, J., & Argo, J.J. (2010). Physical contact and financial risk-taking. *Psychological Science*, 21, 804-810. **A**

Week 11 (March 27): **Individual Differences**

- Frederick, S. (2005). Cognitive reflection and decision making. *Journal of Economic Perspectives*, 19, 25-42. **A**
- Iyengar, S.S., Wells, R.E., & Schwartz, B. (2006). Doing better but feeling worse: Looking for the "best" job undermines satisfaction. *Psychological Science*, 17, 143-150. **B**
- Ersner-Hershfield, H., Garton, M. T., Ballard, K., Samanez-Larkin, G. R., Knutson, B. (2009). Don't stop thinking about tomorrow: Individual differences in future self-continuity account for saving. *Judgment and Decision Making*, 4, 280-286. **C**

Week 12 (April 3): **Money, Giving, and Greed**

- Vohs, K. D., Mead, N. L., & Goode, M. R. (2006). The psychological consequences of money. *Science*, 314, 1154-1156. **C**
- Rand, D. G., Greene, J. D., & Nowak, M. A. (2012). Spontaneous giving and calculated greed. *Nature*, 489, 427-430. **A**
- Piff, P. K., Stancato, D. M., Côté, S., Mendoza-Denton, R., & Keltner, D. (2012). Higher social class predicts increased unethical behavior. *Proceedings of the National Academy of Sciences*, 109, 4086-4091. **B**

Additional Information from Bill Chesney, Associate Dean of Arts, Undergraduate Studies**Academic Integrity**

Academic Integrity: In order to maintain a culture of academic integrity, members of the University of Waterloo are expected to promote honesty, trust, fairness, respect and responsibility.

Discipline: A student is expected to know what constitutes academic integrity, to avoid committing academic offences, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offence, or who needs help in learning how to avoid offences (e.g., plagiarism, cheating) or about "rules" for group work/collaboration should seek guidance from the course professor, academic advisor, or the Undergraduate Associate Dean. When misconduct has been found to have occurred, disciplinary penalties will be imposed under Policy 71 – Student Discipline. For information on categories of offenses and types of penalties, students should refer to Policy 71 - Student Discipline, <http://uwaterloo.ca/secretariat/policies-procedures-guidelines/policy-71>.

Grievance: A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read Policy 70 - Student Petitions and Grievances, Section 4, <http://uwaterloo.ca/secretariat/policies-procedures-guidelines/policy-70>. In addition, consult <http://arts.uwaterloo.ca/student-grievances-faculty-arts-processes> for the Faculty of Arts' grievance processes.

Appeals: A student may appeal the finding and/or penalty in a decision made under Policy 70 - Student Petitions and Grievances (other than regarding a petition) or Policy 71 - Student Discipline if a ground for an appeal can be established. Read Policy 72 - Student Appeals, <http://uwaterloo.ca/secretariat/policies-procedures-guidelines/policy-72>.

Academic Integrity website (Arts):

http://arts.uwaterloo.ca/arts/ugrad/academic_responsibility.html Academic Integrity Office (uWaterloo):
<http://uwaterloo.ca/academic-integrity/>

Accommodation for Students with Disabilities

Note for students with disabilities: The AccessAbility Services (AS) Office, located in Needles Hall, Room 1132, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the AS Office at the beginning of each academic term.