

Psychology 458 Winter 2010
The Psychology of Economic Decisions
Wednesdays 10:00 – 11:50am, PAS 3026

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 DVD player). 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 objectives. 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. We will attempt to understand, among other things, why cab drivers quit earlier on profitable than on unprofitable days, why having more choice options is not always better than having fewer, and how seemingly small changes to a pension plan can have big effects on how much employees save for retirement.

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. Note that some of the readings in this course use mathematical notation to characterize how decisions are and ought to be made.

Course requirements are as follows.

Discussion Leadership

Each assigned reading will have an associated discussion leader. The leader should prepare a 5-10 minute presentation summarizing what was done in the study, why, and what conclusions were drawn by the authors. A lottery system will be used to assign a discussion leader to each article we will be reading. A data projector and built-in computer (Nexus station) are available in our seminar room for use in making your presentation.

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.)

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. An example study proposal has been posted on the course website on ACE.

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 assigned (by lottery) to a target article for their study proposal from the set of assigned readings, so that we have several study proposals 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 describing 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.

By definition, of course, 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.

Final Course Paper

In a brief, final course paper, students are asked to write an additional follow-up study proposal. The major difference is that, in this case, students may choose the target article on which they wish to base their study proposal. Target articles are to be selected from 2008 or 2009 issues of one of two journals: *Journal of Behavioral Decision Making* (on-line access available through the UW Library) or *Judgment and Decision Making* (an open-access journal available at <http://journal.sjdm.org>). Please choose an empirical article (one in which data are presented), ideally one reporting the results of an experiment. If you would prefer to choose a target article from another journal (from 2008 or 2009), please contact the instructor first.

The paper should be no longer than two pages. Approximately half of the first page can be used to provide a summary of those aspects of the target article results and conclusion that are the focus of your study proposal. The remainder of the paper should be dedicated to your study proposal, which will be marked based on the same criteria as used in marking the weekly assignments.

The paper is due by 4pm on Monday, April 12. Papers may be left in the instructor's mailbox in PAS 3021A. They may also be submitted by e-mail; if using e-mail, please be sure that you receive confirmation of receipt by the instructor. (Excuses that the paper was sent by e-mail but disappeared "in transit" are not acceptable.) Penalties will apply to late papers.

Evaluation

study proposals (best 10 @ 6%)	60%
discussion leadership	15%
final paper (brief)	15%
participation	10%

Schedule and Readings

All readings can be downloaded from the Psych 458 site on UW ACE. 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 6): **Introduction**

Overview of normative and descriptive models of decision making

Week 2 (January 13): **Loss Aversion**

Kahneman, D., Knetsch, J. L., & Thaler, R. H. (1991). The endowment effect, loss aversion, and status quo bias. *Journal of Economic Perspectives*, 5, 193-206. **A**

List, J. A. (2004). Neoclassical theory versus prospect theory: Evidence from the marketplace. *Econometrica*, 72, 615-625. **B**

Johnson, E. J., Haubl, G., & Keinan, A. (2007). Aspects of endowment: A query theory of value construction. *Journal of Experimental Psychology: Learning, Memory, and Cognition*, 33, 461-474. **C**

Week 3 (January 20): **Mental Accounting**

Tversky, A., & Kahneman, D. (1981). The framing of decisions and the psychology of choice. *Science*, 211, 453-458. **C**

Camerer, C., Babcock, L., Loewenstein, G., & Thaler, R. (2000). Labor supply of New York City cab drivers: One day at a time. In D. Kahneman and A. Tversky (Eds.), *Choices, Values, and Frames*. Cambridge: Cambridge University Press. **A**

Thaler, R. H., & Benartzi, S. (2004). Save More Tomorrow: Using behavioral economics to increase employee saving. *Journal of Political Economy*, 112, S164-S187. **B**

Week 4 (January 27): **Repeated Decisions**

Gneezy, U., & Potters, J. (1997). An experiment on risk taking and evaluation periods. *Quarterly Journal of Economics*, 112, 631-645. **B**

Hertwig, R., Barron, G., Weber, E. U., & Erev, I. (2004). Decisions from experience and the effect of rare events in risky choice. *Psychological Science*, 15, 534-539. **C**

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

Week 5 (February 3): **Preference Construction**

Shafir, E., Simonson, I., & Tversky, A. (1993). Reason-based choice. *Cognition*, 49, 11-36. **A**

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

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. **C**

Week 6 (February 10): **Anticipating Future Experiences**

- Kahneman, D., Fredrickson, B.L., Schreiber, C.A., & Redelmeier, D.A. (1993). When more pain is preferred to less: Adding a better end. *Psychological Science*, *4*, 401-405. **C**
- Hsee, C. K., & Zhang, J. (2004). Distinction bias: Misprediction and mischoice due to joint evaluation. *Journal of Personality and Social Psychology*, *86*, 680-695. **A**
- 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. **B**

Week 7 (February 24): **Self-Control**

- Heath, C., & Soll, J. (1996). Mental budgeting and consumer decisions. *Journal of Consumer Research*, *23*, 40-52. **B**
- Ariely, D., & Wertenbroch, K. (2002). Procrastination, deadlines, and performance: Self-control by precommitment. *Psychological Science*, *13*, 219-224. **C**
- McClure, S. M., Laibson, D. I., Loewenstein, G., & Cohen, J. D. (2004). Separate neural systems value immediate and delayed monetary rewards. *Science*, *306*, 503-507. **A**

Week 8 (March 3): **Intuition and Deliberation**

- Bechara, A., Damasio, H., Tranel, D., & Damasio, A.R. (1997). Deciding advantageously before knowing the advantageous strategy. *Science*, *275*, 1293-1294. **A**
- Dijksterhuis, A. (2004). Think different: The merits of unconscious thought in preference development and decision making. *Journal of Personality and Social Psychology*, *87*, 586-598. **B**
- Masicampo, E. J., & Baumeister, R. F. (2008). Toward a physiology of dual-process reasoning and decision making. *Psychological Science*, *19*, 255-260. **C**

Week 9 (March 10): **Affect I: Riskless Choice**

- Iyengar, S. S., & Lepper, M. R. (2000). When choice is demotivating: Can one desire too much of a good thing? *Journal of Personality and Social Psychology*, *79*, 995-1006. **C**
- Hsee, C. K., & Rottenstreich, Y. (2004). Music, pandas, and muggers: On the affective psychology of value. *Journal of Experimental Psychology: General*, *133*, 23-30. **A**
- 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. **B**

Week 10 (March 17): **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. (in press). Physical contact and financial risk-taking. *Psychological Science*. **A**

Week 11 (March 24): **Individual Differences**

Liberman, N., Idson, L.C., Camacho, C.J., & Higgins, E.T. (1999). Promotion and prevention choices between stability and change. *Journal of Personality and Social Psychology*, 77, 1135-1145. **A**

Frederick, S. (2005). Cognitive reflection and decision making. *Journal of Economic Perspectives*, 19, 25-42. **B**

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. **C**

Week 12 (March 31): **Miscellaneous**

Hsee, C. K., Yu, F., Zhang, J. & Zhang Y. (2003). Medium maximization. *Journal of Consumer Research*, 30, 1-14. **C**

Gneezy, U., List, J.A., & Wu, G. (2006). The uncertainty effect: When a risky prospect is valued less than its worst possible outcome. *Quarterly Journal of Economics*, 121, 1283-1309. **A**

Vohs, K. D., Mead, N. L., & Goode, M. R. (2006). The psychological consequences of money. *Science*, 314, 1154-1156. **B**

Additional information from Colin Ellard, Associate Chair, Undergraduate Affairs, Department of Psychology:

The Official Version of the Course Outline

If there is a discrepancy between the hard copy outline and the outline posted on UW-ACE, the outline on UW-ACE will be deemed the official version. Outlines on UW-ACE may change as instructors develop a course, but they become final as of the first class meeting for the term.

Accommodation due to illness:

Students who are requesting accommodation for course requirements (assignments, midterm tests, final exams, etc.) due to illness should do the following:

- seek medical treatment as soon as possible and obtain a completed UW Verification of Illness Form*:

http://www.healthservices.uwaterloo.ca/Health_Services/verification.html

- submit that form to the instructor within 48 hours.

- (preferably) inform the instructor by the due date for the course requirement that you will be unable to meet the deadline and that documentation will be forthcoming.

In the case of a missed final exam, the instructor and student will negotiate an extension for the final exam which will typically be written as soon as possible, but no later than the next offering of the course.

In the case of a missed assignment deadline or midterm test, the instructor will either:

1. waive the course component and re-weight remaining term work as he/she deems fit according to circumstances and the goals of the course, or

2. provide an extension.

In the case of bereavement, the instructor will provide similar accommodations to those for illness. Appropriate documentation to support the request will be required.

Students who are experiencing extenuating circumstances should also inform their academic advisors regarding their personal difficulties.

* Special information for cases of influenza-like illness: University policy is that verification of illness by a doctor is currently not required for absences arising from influenza-like illness. Instead, current policy in these cases is that students must self-report such absences through Quest. For instructions on how to report absences due to influenza-like illness, see <http://uwaterloo.ca/influenza/onlinereporting.php>. Students with flu-like symptoms should not attend class.

Students with Disabilities

The Office for Persons with Disabilities (OPD), 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 OPD at the beginning of each academic term.

Concerns About the Course or Instructor (Informal Stage)

We in the Psychology Department take great pride in the high quality of our program and our instructors. Though infrequent, we know that students occasionally find themselves in situations of conflict with their instructors over course policies or grade assessments. If such a conflict arises, the Associate Chair for Undergraduate Affairs (Dr. Colin Ellard) is available for consultation and to mediate a resolution between the student and instructor. Dr. Ellard's contact information is as follows:

Email: cellard@uwaterloo.ca

Ph 519-888-4567 ext 36852

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. See Policy 70 and 71 below for further details.

Academic Integrity, Academic Offenses, Grievance, and Appeals

To protect course integrity, as well as to provide appropriate guidance to students, course outlines in the Faculty of Arts incorporate the following note on avoidance of academic offenses:

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

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://www.adm.uwaterloo.ca/infosec/Policies/policy70.htm>

Discipline: A student is expected to know what constitutes academic integrity, to avoid committing academic offenses, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offense, or who needs help in learning how to avoid offenses (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://www.adm.uwaterloo.ca/infosec/Policies/policy71.htm>

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://www.adm.uwaterloo.ca/infosec/Policies/policy72.htm>