

## Psychology 458 (Psychology of Economic Decisions) Fall 2016

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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.

### *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.

Study proposals are due in class the day they are discussed. Penalties will apply to late submissions.

### *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 and your contributions to the discussion each week. 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 (10 proposals @ 9% each) 90%
- in-class participation 10%

### *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 (Sept. 12): **Introduction**

Overview of normative and descriptive models of decision making

#### Week 2 (Sept. 19): **Loss Aversion, Ownership, and Endowment**

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. **A**

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

Norton, M. I., Mochon, D. & Ariely, D. (2012). The IKEA effect: When labor leads to love. *Journal of Consumer Psychology, 22*, 453-460. **C**

#### Week 3 (Sept. 26): **Risk Attitudes and Anomalies**

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

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

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

**Week 4 (Oct. 3): Framing and Mental Accounting**

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

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. **C**

Shah, A. K., Shafir, E., & Mullainathan, S. (2015). Scarcity Frames Value. *Psychological Science*, 26, 402-412. **A**

**Note: No class on October 10 (Thanksgiving).**

**Week 5 (Oct. 17): Preference Construction**

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. **A**

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. **B**

McLaughlin, O., & Somerville, J. (2013). Choice blindness in financial decision making. *Judgment and Decision Making*, 8, 561-572. **C**

**Week 6 (Oct. 24): Anticipating Future Experiences**

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. **C**

Hsee, C. K., Zhang, J., Cai, C. F., & Zhang, S. (2013). Over-earning. *Psychological Science*, 24, 852-859. **A**

Goldstein, D. G., Hershfield, H. E., & Benartzi, S. (in press). The illusion of wealth and its reversal. *Journal of Marketing Research*. **B**

**Week 7 (Oct. 31): 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 (Nov. 7): Intuition and Deliberation**

Frederick, S. (2005). Cognitive reflection and decision making. *Journal of Economic Perspectives*, 19, 25-42. **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** (Nov. 14): **Affect**

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**

Levav, J., & Argo, J.J. (2010). Physical contact and financial risk-taking. *Psychological Science*, 21, 804-810. **A**

DeSteno, D., Li, Y., Dickens, L., & Lerner, J. S. (2014). Gratitude: A Tool for Reducing Economic Impatience. *Psychological Science*, 1262-1267. **B**

**Note: No class on November 21 (SJDM Conference).**

**Week 10** (Nov. 28): **Individual Differences**

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**

Schley, D. R., & Peters, E. (2014). Assessing "Economic Value": Symbolic-Number Mappings Predict Risky and Riskless Valuations. *Psychological Science*, 25, 753-761. **A**

**Week 11** (Dec. 5): **Money, Greed, and Poverty**

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

Rand, D. G., Greene, J. D., & Nowak, M. A. (2012). Spontaneous giving and calculated greed. *Nature*, 489, 427-430. **B**

Mani, A., Mullainathan, S., Shafir, E., & Zhao, J. (2013). Poverty impedes cognitive function. *Science*, 341, 976-980. **C**

## Psychology department-required statements for undergraduate course outlines

### 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. See the [UWaterloo Academic Integrity webpage](#) and the [Arts Academic Integrity webpage](#) for more information.

**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](#). For typical penalties check [Guidelines for the Assessment of Penalties](#).

### Concerns About a Course Policy or Decision

**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 (Richard Eibach) is available for consultation and to mediate a resolution between the student and instructor: Email: [reibach@uwaterloo.ca](mailto:reibach@uwaterloo.ca); Ph 519-888-4567 ext. 38790

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 [72](#) below for further details.

**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. When in doubt, please be certain to contact Richard Eibach, the Associate Chair for Undergraduate Affairs who will provide further assistance; [reibach@uwaterloo.ca](mailto:reibach@uwaterloo.ca).

**Appeals:** A decision made or penalty imposed under Policy 70 - Student Petitions and Grievances (other than a petition) or Policy 71 - Student Discipline may be appealed if there is a ground. A student who believes he/she has a ground for an appeal should refer to [Policy 72 - Student Appeals](#)

### Accommodation for Students with Disabilities

**Note for students with disabilities:** The [AccessAbility Services](#) office, located on the first floor of the Needles Hall extension (1401), 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.

### Accommodation for course requirements

- Students 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 uWaterloo [Verification of Illness Form](#)
  - submit that form to the instructor within 48 hours.
  - (if possible) 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, midterm test, or quiz, the instructor will either:
  - 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
  - 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.

**Official version of the course outline**

If there is a discrepancy between the hard copy outline (i.e., if students were provided with a hard copy at the first class) and the outline posted on LEARN, the outline on LEARN will be deemed the official version. Outlines on LEARN may change as instructors develop a course, but they become final as of the first class meeting for the term.

**Cross-listed course** (Note: You only need to include this if your course is cross-listed)

Please note that a cross-listed course will count in all respective averages no matter under which rubric it has been taken. For example, a PHIL/PSYCH cross-list will count in the Philosophy major average, even if the course was taken under the Psychology rubric.

***The Writing Centre***

The Writing Centre works across all faculties to help students clarify their ideas, develop their voices, and communicate in the style appropriate to their disciplines. Writing Centre staff offer one-on-one support in planning assignments, using and documenting research, organizing papers and reports, designing presentations and e-portfolios, and revising for clarity and coherence.

You can make multiple appointments throughout the term, or drop in at the Library for quick questions or feedback. To book a 50-minute appointment and to see drop-in hours, visit [www.uwaterloo.ca/writing-centre](http://www.uwaterloo.ca/writing-centre). Group appointments for team-based projects, presentations, and papers are also available.

**Please note** that communication specialists guide you to see your work as readers would. They can teach you revising skills and strategies, but will not change or correct your work for you. Please bring hard copies of your assignment instructions and any notes or drafts to your appointment.