



BEHAVIORAL ECONOMICS
2022/23

Course code	GRAE022
Compulsory in the programmes	<i>Behavioural Economics</i>
Level of studies	<i>Graduate</i>
Number of credits	<i>6 ECTS (36 contact hours + 2 consultation hours, 124 individual work hours)</i>
Course coordinator (title and name)	<i>Prof. Dr. Slavisa Tasic</i> slatas@faculty.ism.lt
Prerequisites	<i>None</i>
Language of instruction	<i>English</i>

THE AIM OF THE COURSE

In this course we examine the role of rationality in economic theory and practice. We will study what rationality means in various areas of economics, how realistic the assumption of rationality is, how deviations from the assumed standards of rationality impact economic policy and financial behavior. Using textbook readings, journal articles, classroom experiments, and exercises we will review some important results of behavioral economics and discuss the implications of these results for economic theory and public policy. The course will also introduce some influential critiques, challenges, and recent debates in the field of behavioral economics.

MAPPING OF COURSE LEVEL LEARNING OUTCOMES (OBJECTIVES) WITH DEGREE LEVEL LEARNING OBJECTIVES (See Annex), ASSESSMENT AND TEACHING METHODS

Course level learning outcomes (objectives)	Degree level learning objectives (Number of LO)	Assessment methods	Teaching methods
CLO1. Understand and apply the main concepts, research tools and methodologies of behavioral economics that help to reveal biases, heuristics, etc. in the decision making process on individual, corporate, policy, and financial market level.	LO1.1.	Quizzes, Class Participation, Project, Final Exam	Lectures
CLO2. Present the main results in the field of behavioral economics focusing on financial market processes including market anomalies.	LO1.1, LO3.1	Project, Final Exam	Lectures, seminars
CLO3. Explore behavioral economics considering financial, investment and dividend policy decisions and contrasting traditional and behavioral approaches.	LO1.1, LO3.1 LO3.2	Quizzes, Class Participation, Project, Final Exam	Lectures, seminars
CLO4. Research, prepare and present behavioral economics problems	LO1.1, LO1.2 LO3.1, LO3.2	Project	Seminars

ACADEMIC HONESTY AND INTEGRITY

The ISM University of Management and Economics Code of Ethics, including cheating and plagiarism are fully applicable and will be strictly enforced in the course. Academic dishonesty, and cheating can and will lead to a report to the ISM Committee of Ethics. With regard to remote learning, ISM remind students that they are expected to adhere and maintain the same academic honesty and integrity that they would in a classroom setting.

COURSE OUTLINE

Session	Topics	In-class hours	Readings (TBD)
Oct 3	Defining rationality Microeconomics: choice under certainty Game theory Rationality in macroeconomics and finance	4	Varian, 2009: Chapters 2-7 Cowen, 2001
Oct 5	Choice under uncertainty Expected Utility Theory (EUT) Violations of EUT Prospect Theory	4	Varian, 2009: Chapter 12 Kahneman & Tversky, 1979 Barberis, 2013
Oct 7	Epistemological questions in economics Deductive logic vs empirical evidence Economic beliefs	4	Friedman, 1966 Rubin, 2003 Caplan, 2007
Oct 10	Heuristics and biases paradigm Two systems Biases, fallacies and illusions	4	Kahneman, 2011
Oct 12	Probability errors Bayes' theorem in decision making Understanding of causality and statistics	4	Kahneman & Tversky, 1974
Oct 14	Behavioral finance Stock market behavior Investing anomalies	4	Shiller, 2003
Oct 17	Behavioral public policy Nudging Behavioral public choice	4	Sunstein, 2014 Lucas & Tasic 2015
Oct 19	Ecological rationality paradigm	4	Gigerenzer, 2015 Buturovic & Tasic, 2015 Taleb, 2017
Oct 20	Course overview and concluding discussion Draft paper discussions Research project presentations	4	
	Project Due		
	Consultations	2	
	Final Exam	2	

FINAL GRADE COMPOSITION

Quizzes (10%)

We will have 8 short quizzes – one every class day, starting from the second class day. They will be related to the class material covered in the class before. Quizzes will consist of multiple choice questions and short answer questions. Quizzes will be open book.

The total quiz score is the simple sum of your best 6 scores (out of 8 quizzes).

Participation (10%)

The nature of this course demands active participation and meaningful engagement. We will run small experiments and discuss readings, video clips and quizzes in class. Participation in such activities is graded with 10%; but extra credit may be awarded for exceptional participation.

Final Exam (40%)

The Final Exam will include a set of multiple-choice and short-answer questions. The exam will be closed book – the use of printed material or electronic equipment will not be allowed.

The Final Exam can be retaken and the Retake counts for 40% of the final grade.

Project (40%)

For the Project you can choose one of the following forms:

Policy Option: An opinion piece in the form of a newspaper op-ed. Op-eds are brief argumentative articles in favor or against a particular idea, policy, or action. Your article will make an argument that relates some behavioral economics phenomenon to something in the real world. The typical length of the op-ed is around 800 words and yours should be of similar length; but the quality of writing and editing must be exceptional. This is an individual assignment.

On the last day of classes, you should send the first draft to the instructor, present the idea of your article, and discuss it with the class. Presentation slides are optional. After receiving the instructor's feedback on your writing, you will submit the final version of the article for grading.

Research Option: An experiment designed to test a particular behavioral phenomenon, described in the presentation and in an accompanying abstract (~500 words). You can use a behavioral concept from the existing literature or propose an entirely new one, and come up with your own experimental design or a survey in order to test it. You can perform your experiment or run a survey in the current classroom or online. This is an individual or joint assignment (two member groups only).

On the last day of the classes, you should present your research and findings, and email the presentation to the instructor. You can submit the accompanying abstract on a later date.

For both options, both the presentation in class and the contents are important; but the contents (quality of the article, quality of the experiment and the abstract) weighs more (90%) in the grade for the Project.

READINGS

Besides the books and academic journal articles listed below, additional readings will be specified and assigned for each class.

Books:

Varian, Hal. 2009. *Intermediate Microeconomics*. 8th edition. New York: W. W. Northon & Co.

Kahneman, Daniel. 2011. *Thinking Fast and Slow*. New York: Farrar, Straus and Giroux.

Journal Articles:

Barberis, Nicholas. 2013. Thirty Years of Prospect Theory in Economics: A Review and Assessment. *Journal of Economic Perspectives* 27(1): 173–196.

Buturovic, Zeljka and Slavisa Tasic. 2015. Kahneman's Failed Revolution Against Economic Orthodoxy. *Critical Review* 27(2): 127:145.

Caplan, Bryan. 2007. "The Myth of the Rational Voter". *Cato Policy Analysis* 594.

Cowen, Tyler. 2001. "How Do Economists Think about Rationality?" In *Satisficing and Maximizing: Moral Theorists on Practical Reason*, ed. Michael Byron. Cambridge: Cambridge University Press.

DeLong, Brad and Konstantin Magin. 2009. The U.S. Equity Return Premium: Past, Present, and Future. *The Journal of Economic Perspectives* 23(1): 193-208.

Diamond, Peter, Eldar Shafir and Amos Tversky. 1997. Money Illusion. *Quarterly Journal of Economics* 112(2): 341-374.

Friedman, Milton. 1966. "The Methodology of Positive Economics". In *Essays In Positive Economics*. Chicago: Univ. of Chicago Press.

Gigerenzer, Gerd. 2015. Towards a Rational Theory of Heuristics. Mimeo.

Kahneman, Daniel and Amos Tversky. 1974. Judgement under Uncertainty: Heuristics and Biases. *Science* 185(4157):1124-1131.

Kahneman, Daniel and Amos Tversky. 1979. Prospect Theory: An Analysis of Decisions under Risk. *Econometrica* 47(2):263-292.

Lucas, Gary & Slavisa Tasic. 2015. Behavioral Public Choice and the Law. *West Virginia Law Review* 118(1), 199-266.

Rubin, Paul. 2003. Folk Economics. *Southern Economic Journal* 70(1): 157-171.

Sunstein, Cass. 2014: Nudging: A Very Short Guide. *Journal of Consumer Policy* 583.

Taleb, Nassim. 2017. "How to be Rational about Rationality", in *Skin in the Game*.

DEGREE LEVEL LEARNING OBJECTIVES

Learning objectives for Master of Social Science

Programme:

Financial Economics

Learning Goals	Learning Objectives
Students will be critical thinkers	LO1.1. Students will be able to identify underlying assumptions, limitations of previous research; evaluate managerial solution alternatives.
	LO1.2. Students will become independent learners and develop their own comprehension of scientific theories, models, and concepts.
Students will be socially responsible leaders	LO2.1. Students will be able to evaluate past and current practices in their discipline from an ethical perspective .
Students will be effective communicators	LO3.1. Students will develop and deliver a coherent oral presentation .
	LO3.2. Students will develop and deliver a coherent written research paper .