

ECON5125
Behavioral Economics (MBA)
Time: 7:00pm-10:20pm Tuesday
Location: Online

Instructor: Wooyoung Lim
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Office Hours: by appointment
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1 Course Objective

The course demonstrates how insights of behavioral economics can be utilized by managers and policy makers to address important decisions confronting a firm, an organization, and a society. This course introduces the basic concepts of **Behavioral Economics**. Loss aversion, prospect theory, present bias, time-inconsistency, behavioral biases in information processing, nudge/choice architecture, behavioral game theory and other important behavioral economic concepts will be taught and related real-world cases will be discussed.

2 Course Intended Learning Outcomes

- Understand and be able to apply the core academic concepts of business functions required for General Managers
- Integrate of functional knowledge concepts to make general management decisions
- Apply Western management expertise to Greater China
- Develop strong verbal and written communication skills
- Effectively work as member of cross-cultural teams
- Ability to define, analyze, and solve complex problems
- Responsible Leadership

3 Prerequisite

There is no prerequisite requirement.

4 Required Readings (Available on Canvas)

1. "Behavioral Insights and Public Policy: Lessons from Around the World," OECD Report (2017)
2. "Behavioral Economics Guide 2020" (with an Introduction by Colin Camerer), Alain Samson (Ed.) (2020)

3. “Changing Behavior to Improve People’s Lives: A Practical Guide,” ideas⁴² (2019)
 - Lecture Note 2 (Loss Aversion)
 1. Drip Pricing in e-commerce (OECD Report, pp. 82-85)
 2. Increasing the Number of Organ Donors in the United Kingdom (OECD Report, pp. 262-264)
 3. Among Social Scientists, a Vigorous Debate Over Loss Aversion (November 15, 2021 by Michael Schulson, Undark Magazine)
 - Lecture Note 3 (Dynamic Inconsistency)
 1. Hyperbolic Discounting: Why You Make Terrible Life Choices
 2. The Business Of Behavioral Economics (Forbes Magazine)
 3. Applying Behavioral Science to Health and Financial Decisions: Five Case Studies on the Impact of Framing on Real-World Decisions (BE Guide 2020, pp. 40-56)
 - Lecture Note 4 (Information Processing)
 1. Package Size Reduction (OECD Report, pp. 76-78)
 2. Promoting Healthy Lifestyles Through a Computer-based HIV Risk Game (OECD Report, pp. 252-255)
 3. Momentum isn’t magic - vindicating the hot hand with the mathematics of streaks
 4. There’s no proof the Oxford vaccine causes blood clots. So why are people worried?
 5. Overconfident CEOs (Recommended Reading for those who are interested in this topic)
 - Lecture Note 5 (Nudge and Choice Architecture)
 1. Nudging Smokers Away From the Doors at CPH Airports (OECD Report, pp. 236-239)
 2. Lowering Arrests in NYC: A Case Study in Behaviorally Designed Court Summonses (ideas⁴², pp. 46-55)
 3. Nudging Hospital Visitors’ Hand Hygiene Compliance (iNudgeyou, 2016)
 4. Costly Behaviours: Using Behavioural Economics to Manage the Company Cost Base (BE Guide 2020, pp. 80-90)
 - Lecture Note 6 (Behavioral Game Theory)
 1. Stanford Encyclopedia of Philosophy “Game Theory”
 2. A Nobel Prize for Game Theorists: The Contributions of Harsanyi, Nash and Selten (Faruk Gul, Journal of Economic Perspectives, 1997)
 - Lecture Note 7 (Strategic Thinking Skills and Their Economic Importance)
 1. The Korean Secret to Happiness and Success (With “nunchi,” all you need is your eyes, your ears and a quiet mind), The New York Times, Nov. 2019

5 Reference Books

1. Richard Thaler and Cass Sustein “Nudge,” 2009
2. Dan Ariely “Predictably Irrational,” 2009
3. Richard Thaler “Misbehaving,” 2016
4. Erik Angner “A Course in Behavioral Economics”
5. Colin F. Camerer “Behavioral Game Theory”

6 Course Requirement and Evaluation

- Evaluation (Pass/Fail) will be based upon class participation (50%) and the final report (50%).
- If you do not attend two or more classes without permission, you will fail the course.
- Final Report Theme “**Be Your Own Choice Architecture**”
 1. Make your own Behavioral Insight Team (minimum 1 person, maximum 3 people)
 2. Identify an original issue (in your office / classroom / team / family / company / school / residential area / village / town / country / society, etc.). Explain why the issue(s) identified is important.
 3. Explain how the issue you identify is related to / originates from some behavioral economics concepts.
 4. Propose behavioral solutions and explain how your solutions can improve the welfare of the society.
 5. **(Optional) Write a brief (one-page) summary of your (preliminary) idea by Wednesday, Week 3 if you want to receive some feedback from the class. Prepare 5-min presentation slides (3-4 pages).**
 6. Write a report, minimum 3 pages, maximum 10 pages plus a separate front page (Due Date: April 05).
- Ten selected final reports from the 2020 cohort and eight selected final reports from the 2021 cohort will be available on Canvas for your reference.
- Announcements, lecture slides, and supplementary materials will be updated onto the course website. If a student finds difficulties in the course and has any concern about the course, it is his/her benefit to contact me or the teaching assistant at the early stage.

7 Course Outline (tentative, subject to change.)

- **Week 1: Overview and Loss Aversion**
 - Lecture Note 0: Economists' Ambition
 - Lecture Note 1: Behavioral Economics – An Overview
 - Lecture Note 2: Loss Aversion
- **Week 2: Present Bias, Time Inconsistency, and Information Processing**
 - Lecture Note 3: Present Bias and Time Inconsistency
 - Lecture Note 4: Behavioral Biases in Information Processing
- **Week 3: Nudge and Choice Architecture**
 - Lecture Note 5: Nudge and Choice Architecture
- **Week 4: Behavioral Game Theory**
 - Lecture Note 6: Behavioral Game Theory
 - Lecture Note 7: Strategic Thinking Skills and Their Economic Importance
- **Final Report by April 05 11:59 PM**

8 Learning Environment

Matured conduct in classroom is the requirement for this course. Distractive behaviors such as use of cell phone, instant messaging and chatting are not tolerated. Violation of this rule will result in significant deduction of points from student's grade. Please refer to following website for the guideline for good learning environment:

http://www.ust.hk/vpaa0/conduct/good_learning_experience.pps.

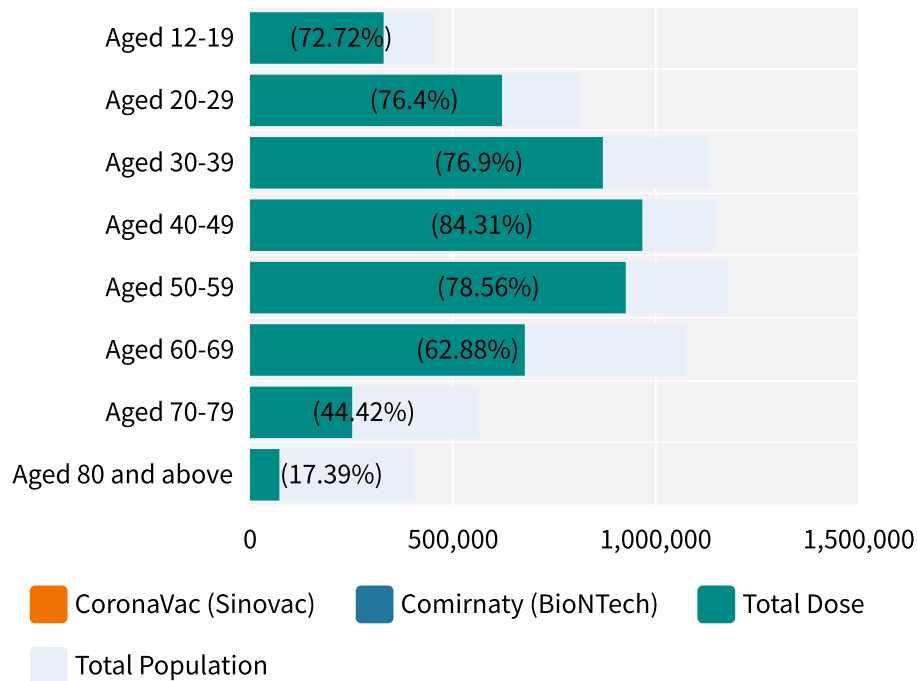
9 Academic Integrity Policy

Honesty and Integrity is central value in HKUST. Please be aware of the importance and maintain high standard of honesty in the problem sets and examinations in this course. Familiarize yourself to the university rules and the HKUST academic honor code by visiting following website:

<http://www.ust.hk/vpaa0/integrity/>.

10 Be Your Own Choice Architecture : An Illustrating Example

10.1 Motivating Observations



■ Source: HK COVID-19 Dashboard, Nov. 19, 2021

10.2 Your Tasks

There are various reasons why old (aged over 65) people in Hong Kong hesitate to get vaccinated. But without achieving the vaccination rate over 75% for this group of people (who are more vulnerable to COVID-19), it is impossible for the government to open up the boarder anytime soon. Your Behavioral Insights Team is now in charge of coming up with behavioral remedies and proposing a set of policy measures to increase the vaccination take-up, especially for those who are over 65 in Hong Kong. What will you do?