

ECON5125  
Behavioral Economics (MBA)  
Time: Wed. 7PM-10:20PM  
Location: UST Business Central

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,” ideas<sup>42</sup> (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 (ideas<sup>42</sup>, 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)
    5. Green Burial in Hong Kong (This discussion item is adopted from the final project submitted last year by Bas Lui)
  - 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)
    3. Keynes’s ‘beauty contest’, (2015, Financial Times)

- Lecture Note 7 (Strategic Thinking Skills: A Key to Collective Economic Success)
  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 Sep. 12, Monday 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: September 28).
- Several selected final reports from the 2020-2022 cohorts 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**
  - Lecture Note 0: Economists' Ambition
  - Lecture Note 1: Behavioral Economics – An Overview
- **Week 2: Lose Aversion, Present Bias and Time Inconsistency**
  - Lecture Note 2: Loss Aversion
  - Lecture Note 3: Present Bias and Time Inconsistency
- **Week 3: Information Processing, Nudge and Choice Architecture**
  - Lecture Note 4: Behavioral Biases in Information Processing
  - Lecture Note 5: Nudge and Choice Architecture
  - Discussion: Green Burial in Hong Kong
- **Week 4: Behavioral Game Theory**
  - Lecture Note 6: Behavioral Game Theory
  - Lecture Note 7: Strategic Thinking Skills: A Key to Collective Economic Success
- **Final Report by September 28**

## 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](http://www.ust.hk/vpaa0/conduct/good_learning_experience.pps).

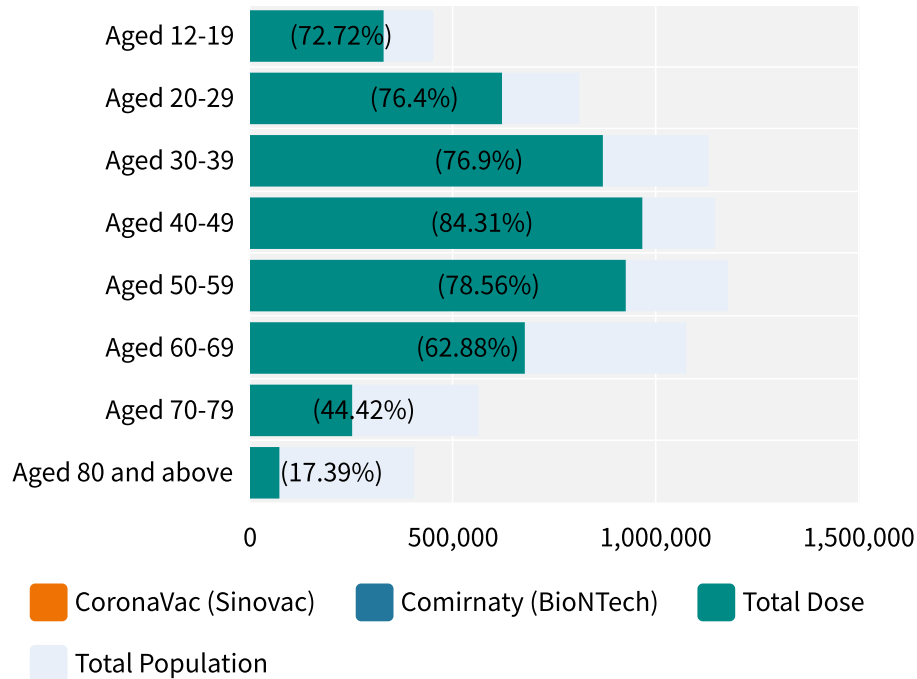
## 9 Academic Integrity Policy

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 : Illustrating Example I

### 10.1 Motivating Observations



■ Source: HK COVID-19 Dashboard, Feb. 2022

“Compounding the first failure to build up the capacity to achieve zero-Covid was the refusal, on the part of the Hong Kong government, to consider the possibility that given its constraints and circumstances, a mitigation approach to Covid-19 may be more sustainable and realistic for Hong Kong. Transiting to a mitigation approach, however, requires a very high vaccination rate (of at least 80 per cent for the whole population, and higher for the most vulnerable elderly population) to minimise the number of cases who would fall severely ill, and ensuring sufficient capacity in the health care system (especially ICU beds) for those who do.” Donald Lau (SCMP, Feb 22, 2022)

### 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 85-90% for this group of people (who are more vulnerable to COVID-19), it is impossible for the government to consider a mitigation approach. At the same time, the current dynamic zero-COVID policy the government is adopting creates a huge economic burden for the Hong Kong society. 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? **Let’s focus on making an information brochure (maximum three pages) to be read by elderly and their family members.**

## 11 Be Your Own Choice Architecture : Illustrating Example II

### 11.1 Motivating Observations

The Hong Kong Monetary Authority (HKMA) is exploring a digital currency called e-HKD that will allow the public to use this form of electronic payment to shop, dine or make money transfers. The authority first mentioned the plan in June as part of Fintech 2025, its fintech plan for the next four years. The de facto central bank earlier this month issued a 50-page white paper called “e-HKD: A technical perspective” as a first step to explore infrastructure for the currency.

“If the e-HKD proves to be a credible alternative to cash then it could lead to a cashless society, marked by greater efficiency and lower costs thanks to faster settlement and a stronger ability to stop unlawful activities like money laundering, while further protecting monetary sovereignty,” said Benjamin Quinlan, CEO and managing partner of consulting firm Quinlan & Associates.

“When someone steals your wallet, you lose your banknotes and coins that have no ownership identity. However, if someone stole your e-HKD, it is easier for enforcement agencies to trace the digital currency,” said Wilson Chan, senior adviser of the Hong Kong Institute of Bankers

Enoch Yiu and Georgina Lee (SCMP, Oct 14, 2021)

### 11.2 Your Tasks

There are various reasons why citizens in Hong Kong find it not very attractive to adopt e-HKD. First, they are already using electronic payment via Octopus card Apple Pay, and/or Alipay. They are already familiar with those existing platforms and may not have any reason to switch to something else. Second, they may worry about the fact that every single dollar of one’s daily spending is traceable. How would you mitigate these concerns when you introduce e-HKD? **Let’s focus on making an information brochure (maximum three pages) to be read by the public.**