

G646: BEHAVIORAL DECISION MAKING

**Graduate School of Business
Stanford University
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Schedule: Wednesday, 2:00-5:00

OVERVIEW

The purpose of this seminar is to provide Ph.D.-level coverage of the psychology of judgment and decision making. Although the normative issue of how decisions should be made is relevant, the descriptive issue of how decisions *are* made is the main focus of the course. In addition to examining prior decision research, my goal in this seminar is to improve your ability to identify interesting research questions, develop effective experiments for testing them, and evaluate and critique research methods. In each session there will be 3-4 articles that will be examined in detail. In addition, for most sessions, there will be additional background readings, which you may want to at least skim before class (and may want to read more carefully later). The discussion articles and the additional readings assigned for each class appear on the following pages. Some changes might be made during the term.

Class sessions will involve different components. We will briefly discuss key conceptual issues relating to the topics of the class. We will then discuss the assigned articles in some detail, which will require you to examine carefully the issues and studies presented in each article prior to class. In addition, students, usually working in groups, will identify research ideas and methods for testing these ideas, building on the earlier class discussion.

As will be described in more detail in class, students should prepare and hand-in (individually) each week a brief (one-two pages max.) written critique of one or two

aspects of each of the discussion articles (i.e., the required readings) for that week. The students can decide on which aspect/s of the articles they wish to focus, such as the hypotheses, methodology, or conclusions. In your written critique, make sure not to review or summarize the article – just present your (very brief) evaluation of the aspects you choose to focus on. These written critiques will not be graded separately, but they will contribute to your class participation grade.

In addition, for one article (to be assigned before Session 8), each student or a team of two students will prepare a 3-page critique (guidelines will be provided in class). Finally, each student or a team of two students will be expected to prepare a research proposal presenting an original research idea, a brief literature review, hypotheses, and a preliminary research design. Students should make sure to attend every class. Missing more than two classes can lead to unsatisfactory grade in the course. The final grade will be based on class participation (45%), the article critique (15%), and the research proposal (40%).

Session 1 – Judgment Biases (September 26th)

Selected examples of key judgmental heuristics and biases will be discussed in class, including representativeness, availability, anchoring, overconfidence, and the base rate fallacy.

Required Readings:

1. A. Tversky and D. Kahneman (1974), "Judgment under uncertainty: Heuristics and biases," *Science*, 185, 1124-1131.
2. N. Epley and T. Gilovich (2001), "Putting Adjustment Back in the Anchoring and Adjustment Heuristic," *Psychological Science*, 12 (5), 391-96.
3. T. Gilovich, R. Vallone, and A. Tversky (1985), "The Hot hand in Basketball: On the Misperception of Random Sequences," *Cognitive Psychology*, 17, 295-314.

Session 2 – Context and Task Effects on Constructed Preferences (October 10th)

Required Readings:

1. Itamar Simonson and Amos Tversky (1992), "Choice in context: Tradeoff contrast and extremeness aversion," *Journal of Marketing Research*, 29, 281-295.
2. S. Iyengar and M. Lepper (2000), "When Choice is Demotivating: Can One Desire Too Much of a Good Thing?" *Journal of Personality and Social Psychology*, 79 (6), 995-1006.
3. S. Benartzi and R. Thaler (forthcoming), "Heuristics and Biases in Retirement Savings Behavior," *Journal of Economic Perspectives*.

Additional Readings:

1. John Payne, James Bettman, and Eric Johnson (1993), *The Adaptive Decision Maker*, Chapter 3, "Deciding how to decide: An effort-accuracy framework," Cambridge University Press.
2. Lerner, Jennifer S. and Philip E. Tetlock (1999), "Accounting for the Effects of Accountability," *Psychological Bulletin*, 125 (March), 255-275.
3. Itamar Simonson (1990), "The Effect of Purchase Quantity and Timing on Variety Seeking Behavior," *Journal of Marketing Research*, 27 (May), 150-162.
4. A. Tversky & E. Shafir (1992), "The disjunction effect in choice under uncertainty," *Psychological Science*, 3, 5, 305-309.

Session 3: Applications of Prospect Theory (October 3rd)

Required Readings:

1. R. Thaler (1985), "Mental Accounting and Consumer Choice," *Marketing Science*, 4, 199-214.
2. L. Van Boven, G. Loewenstein & D. Dunning (2003), "Mispredicting the endowment effect: Underestimation of owners' selling prices by buyer's agents," *Journal of Economic Behavior & Organization*, 51, 351-365.
- (skim) 3. S. Tom et al. (2007), "The neural basis of loss aversion in decision-making under risk," *Science*, 315, 26 January, pp. 515-8.
4. C. Hsee and Y. Rottenstreich (2004), "Music, Pandas, and Muggers: On the Affective Psychology of Value," *Journal of Experimental Psychology: General*, 133, 23-30.

Additional readings:

1. Daniel Kahneman and Amos Tversky (1979), "Prospect theory: An analysis of decision under risk," *Econometrica*, 47, 263-291.
2. Amos Tversky and Daniel Kahneman (1986), "Rational choice and the framing of decisions," *Journal of Business*, 59, 251-78.
3. Thaler, Richard H. (1999), "Mental accounting matters," *Journal of Behavioral Decision Making*, 12(3), 183-206.
4. G. Loewenstein and R. Thaler (1989), "Intertemporal Choice," *Journal of Economic Perspectives*, 3(4), 181-193.

Session 4 – Alternative Interpretations of Effects on Judgment and Choice (October 17th)

Required Readings:

1. Eldar Shafir, Itamar Simonson, and Amos Tversky (1993), "Reasons-Based Choice," *Cognition*, 49, 11-36.
2. A. Rubinstein (2005), "Discussion of Behavioral Economics."
3. O. Amir et al. (2007), "Deciding without resources: Psychological depletion and choice in context," working paper.
4. I. Simonson (2008), "Will I like a 'medium' pillow? Another look at constructed and inherent preferences," *Journal of Consumer Psychology*.

Session 5 – The Role of Counterfactuals, Regret, and Self-Control (October 24th)

Required Readings:

1. T. Gilovich and V. Medvec (1994), "The Temporal Pattern to the Experience of Regret," *Journal of Personality and Social Psychology*, 67 (3), 357-365.
2. V. Medvec, S. Madey, and T. Gilovich (1995), "When Less is More: Counterfactual Thinking and Satisfaction Among Olympic Athletes," *Journal of Personality and Social Psychology*, 69, 603-10.
3. A. Keinan and R. Kivetz (2006), "Remedying hyperopia: The effects of self-control regret on consumer behavior," working paper.

Additional Readings:

1. Thomas Gilovich and Victoria Medvec (1995), "The experience of Regret: What, when, and why," *Psychological Review*, 102, 2, 379-395.
2. Daniel Kahneman and Amos Tversky (1982), "The simulation heuristic," in *Judgment Under Uncertainty: Heuristics and Biases*, eds. Daniel Kahneman, Paul Slovic, and Amos Tversky, Cambridge University Press, 201-208.

Session 6 – Priming and Unconscious Influences on Decision Making (October 31st)

Required Readings:

1. A. Dijksterhuis et al. (2006), “On Making the Right Choice: The Deliberation-Without-Attention Effect,” *Science*, 1005-7.
2. M. Maimaran and C. Wheeler (2005), “Circles, Squares, and Choice: Graphical Priming Effects on Preference for Uniqueness and Variety Seeking,” working paper.
3. B. Pelham et al. (2002), “Why Susie Sells Seashells by the Seashore: Implicit Egotism and Major Life Decisions,” *Journal of Personality and Social Psychology*, 82 (April), 469-87.
4. M. Iacoboni (2007), “Who really won the Super Bowl?” (http://edge.org/3rd_culture/iacoboni06/iacoboni06_index.html)

Additional Readings:

1. J. Greene et al. (2001), “An fMRI Investigation of Emotional Engagement in Moral Judgment,” *Science*, 293, 2105-8. (including supplementary material)
2. Richard Nisbett and Timothy Wilson (1977), "Telling more than we can know: Verbal reports on mental processes," *Psychological Review*, 84, 231-259.

Session 7 – Social and Individual Difference Influences on Decision Making (Nov. 7th)

Required Readings:

1. R. van Baaren (2003), "Mimicry for Money: Behavioral Consequences of Imitation," *Journal of Experimental Social Psychology*, 39, 393-8.
2. V. Liberman & L. Ross (2006), "Idiosyncratic matching and choice: When less is more," *Organizational Behavior and Human Decision Processes*, 168-183.
3. S. Frederick (2005), "Cognitive reflection and decision making," working paper.

Session 8 – Ultimatum Games, Prisoner’s Dilemma, and Fairness (November 14th)

Required Readings:

1. R. Wong & Y. Hong (2005), “Dynamic Influences of Culture on Cooperation in the Prisoner’s Dilemma,” *Psychological Science*, 16, 429-434.
2. J. Dana, D. Cain, and R. Dawes (2006), “What you don't know won't hurt me: Costly (but quiet) exit in a dictator game,” *Organizational Behavior and Human Decision Processes*, .
3. B. Sheese & W. Graziano (2005), “Deciding to Defect,” *Psychological Science*,” 16, 354-357.

Special (written) Assignment: Article Review

Students, working individually or in collaboration with another student, should submit an article review of article # 2 above (by Dana et al.). More detailed guidelines will be provided in class.

Additional Readings:

1. D. Kahneman, J. Knetsch, and R. Thaler (1986), “Fairness as a Constraint on Profit Seeking,” *The American Economic Review*, 76 (4), 728-41.
2. E. van Dijk et al. (2004), “Social Value Orientations and the Strategic Use of fairness in Ultimatum Bargaining,” *Journal of Experimental Social Psychology*, 40, 697-707.

Session 9 – Evaluating and Predicting Affect and Happiness (November 28th)

Required Readings:

1. D. Schkade and D. Kahneman (1998), “Does Living in California Make People Happy? A Focusing Illusion in Judgments of Life Satisfaction,” *Psychological Science*, 9(5), 340-6.
2. D. Wirtz et al. (2003), “What to Do on Spring Break? The Role of Predicted, On-Line, and Remembered Experience in Future Choice,” *Psychological Science*, 14, 520-4.
3. D. Kahneman et al. (2006), “Would you be happier if you were richer? A focusing illusion,” *Science*, 312, 30 June 2006, 1908-10.

Additional Readings:

1. Ravi Dhar and Itamar Simonson (1999), "Making Complementary Choices in Consumption Episodes: Highlighting Versus Balancing" Journal of Marketing Research, 36 (February), 29-44.
2. D. Kahneman et al. (1993), “When more pain is preferred to less: Adding a better end,” *Psychological Science*, 4, 401-5.
3. D. Gilbert et al. (1998), “Immune neglect: A source of durability bias in affective forecasting,” *Journal of Personality and Social Psychology*, 75, 617-638.
4. D. Kahneman (1994), "New Challenges to the Rationality Assumption," *Journal of Institutional and Theoretical Economics*, 150/1, 18-36.

Session 10 - Student Presentations of Research Proposals (Dec. 5th)

More details about the presentation format will be provided in class.