

ESCOLA BRASILEIRA DE ADMINISTRAÇÃO PÚBLICA E DE EMPRESAS – EBAPE/FGV
MSc & PhD in Administration

Course: Behavioral Decision Theory & Consumer Decision Making

2nd Quarter, 2022; Course workload: 30 hours

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Classes on Monday, Wednesday, Fridays (between June 20th and July 15th), 2 - 5 pm; There will be no classes between June 28th and July 3rd

Course term: June 20th – July 15th, 2022

SYLLABUS

INTRODUCTION & LECTURES

Traditionally, consumer decision making may be studied using one of two perspectives. One perspective takes an “information processing” perspective. In this perspective, the focus is on how/what consumers pay attention to, how they learn, how memory works in storing/retrieving information, and how this information affects consumers’ attitudes, purchase intentions, etc. There is thus a strong emphasis on memory structures and processes and on their impact on persuasion in this perspective.

The second perspective, generally referred to as “BDT” (Behavioral Decision Theory), begins broadly with the idea of normative behavior (how one *should* behave), and attempts to chronicle and explain deviations from such behavior (“descriptive” behavior). This course is closer to this second perspective.

This course will, however, be different from typical BDT seminars in the following two ways. First, it will be more heavily psychological than a typical BDT course, although, consistent with a BDT flavor, the articles will tend to focus on “outcome” (judgments/choice/decisions) variables, rather than “process” variables (such as reasons for choice). And second, rather than merely chronicle ways in which people deviate from normative behaviors (and thus indulge in “econ-bashing”), we will attempt to derive implications for normative behavior, based on extant understanding of BDT findings. That is, we will focus on developing prescriptions for good decision making; as such, there will be an explicit attempt to focus on the implications of past findings and research for self-regulation in this course.

We will meet for 10 sessions, each 3 hours long. Sessions 1-4 and 6-8 will be lectures; Session 5 (in *italics*) will be student presentations and Session 10 (also in *italics*) will be a final exam. Further Session 1-4 (underlined sessions) will be held online (on Zoom). Sessions 5-10 will be in-person.

<u>Session 1: The Economic Man and Rationality</u>	Monday, June 20th, 2022
<u>Session 2: Loss aversion and negativity bias</u>	Wednesday, June 22nd, 2022
<u>Session 3: Decision/choice heuristics</u>	Friday, June 24th, 2022
<u>Session 4: Judgment heuristics</u>	Monday, June 27th, 2022
<i>Session 5: Student presentations</i>	<i>Monday, July 4th, 2022</i>
Session 6: Affect heuristic and impulsivity	Wednesday, July 6th, 2022
Session 7: Social influence	Friday, July 8th, 2021
Session 8: Consummatory vs. instrumental motives	Monday, July 11th, 2021
Session 9: Reciprocity and Prosocial behavior	Wednesday, July 13th, 2021
<i>Session 10: Final Exam</i>	<i>Friday, July 15th, 2021</i>

GOAL

We will begin with an overview of how researchers have conceived of and defined a term that is central to all judgment and decision-making research—rationality. Then, we will discuss some assumptions underlying the concept of rationality, namely, what it would take to behave in a rational manner. Then, the rest of the class will focus on whether, to what extent and under what conditions the assumptions of rationality are likely to hold.

TOPICS

Broadly speaking, we will discuss the following topics:

- i. Processing Capacity Limitations and its Implications
- ii. Discrepancy between Predicted and Experienced Utilities
- iii. (In)stability in Tastes
- iv. Forces that Actually Shape our Judgments and Decisions
- v. Impediments to Good Decision Making, and finally
- vi. New Directions that Shed Light on Self-Regulation

GRADING & METHOD

Grading for the course is as follows:

- Class participation: 25 points
- Student presentations: 25 points
- Final exam: 50 points

Class participation (25 points):

Each week, 2-4 papers will be assigned. You are expected to read each paper carefully before class. A large part (25%) of your grade will be determined by your ability to thoughtfully discuss the papers. Your aim, in reading the assigned papers, should be on recalling information from the papers and integrating the information into the class discussion. In particular, I would encourage you to integrate the following aspects of the papers into the discussions: (1) the main ideas conveyed in the papers, (2) what they imply for how people should/do behave, (3) in the case of papers with studies, potential “confounds” (alternative explanations for the propositions/findings), (4) how you would extend the ideas (through new hypotheses, follow-up studies), and (5) how you would incorporate the ideas within a larger framework of decision making.

Guidelines to help you prepare for class:

I strongly urge you to prepare a 2-6 page summary of each paper as soon as you have finished reading it. The summary should focus on the following information:

- a. What was the main objective of the paper? Why was this objective worthwhile pursuing (e.g., what is the context in which the research was developed? what came before it? what implications does it have for advancing our theoretical understanding of decision making?)
- b. What are the major predictions? Which ones are interesting? Why? Which ones seem dull or obvious? Which ones have problems? Why?
- c. A brief summary of each experiment, followed by comments on whether the method permitted a strong test of the predictions. E.g., how well do the authors manipulate the independent variables in their hypotheses? Are these manipulations confounded with other variables? How well do the authors measure the dependent variables in their hypotheses? Are these measurements reliable (e.g., in terms of coefficient alpha)? Do the results of data analysis permit the authors to reach firm conclusions?
- d. Finally, what is the essence of the paper (i.e., what is the net “take-away”)?

I would suggest that you finish the outline by noon on the day before each class (i.e., by noon on Wednesday).

Emailing Questions: By 4:00 pm on the day preceding each class, I will expect you to email me **three questions** on one or more of the papers assigned for that week. These questions may pertain to conceptual or

methodological issues; or they may pertain to a specific connection you see between the article and a personal observation and/or another article. In short, the question could be on any topic, so long as it is related to the readings, and conveys to me that you have spent time and effort to understand and digest the information in the readings.

Student presentations (25 points):

Depending on the number of students in the class, you will be given between 15 and 30 minutes to make a research presentation. I will expect you to present a relatively novel hypothesis, and propose one or two experiments to test this hypothesis. I will expect you to cite and discuss papers relevant to your topic/hypothesis and also discuss how you propose to rule out alternative explanations (if any) for your proposed effect.

Final exam (50 points):

The open-book final exam will consist of 11 questions out of which you may choose to answer any 10. (Each question will be worth 5 points.) You will have 3 hours to answer the questions. I suggest that you type out your answers on your laptop and email your file to me once you are done. The questions will pertain to the articles (see below) assigned to you for the course. After each session, I will provide a “question bank” that contains between 5 and 15 questions per article for that session. You should prepare for the final exam by answering these questions. The questions for the final exam will be based broadly on the questions in this question bank.

I suggest that you prepare for the final exam independently (rather than collaboratively). You will be penalized if your answers are very similar to the answers of other students.

I will provide you with a mock exam and a key for the mock exam about a week before the final exam.

Punctuality and Class Timings:

I am a bit of a punctuality freak, so I will appreciate it if you come to class in time (i.e., one or two minutes before the class is scheduled to begin). I will most likely spend the first 15-20 minutes at the beginning of each session providing an integrative overview of the readings for that session, so as to place the articles in the context of a larger picture. Then, we will spend about 15 – 45 minutes per article, depending on the interest level in each. After the halfway point in each class, we will take a 10-minute coffee/bathroom break.

READINGS

Session 1: The Economic Man and Rationality

Monday, June 20th, 2022

- Edwards, Ward (1954), "The Theory of Decision Making," *Psychological Bulletin*, 51, 380-417. (**Read only till page 403.**)
- Simon, H. A. (1955). A behavioral model of rational choice. *The quarterly journal of economics*, 69(1), 99-118.
- Pham, Michel T. (2007), “Emotion and Rationality: A Critical Review and Interpretation of Empirical Evidence,” *Review of General Psychology*, 11(2), 155 – 178.

Session 2: Loss aversion and negativity bias

Wednesday, June 22nd, 2022

- Tversky, A., & Kahneman, D. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263-291.
- Rozin, Paul, and Edward B. Royzman (2001). “Negativity bias, negativity dominance, and contagion.”

Personality and social psychology review 5, no. 4 (2001): 296-320.

- Gal, D., & Rucker, D. D. (2018). The loss of loss aversion: Will it loom larger than its gain?. *Journal of Consumer Psychology*, 28(3), 497-516.

Session 3: Decision/choice heuristics

Friday, June 24th, 2022

- Hoyer, Wayne D (1984) "An examination of consumer decision making for a common repeat purchase product." *Journal of consumer research* 11, no. 3: 822-829.
- Payne, John W., James R. Bettman, and Eric J. Johnson (1988), "Adaptive strategy selection in decision making." *Journal of experimental psychology: Learning, Memory, and Cognition* 14, no. 3 (1988): 534.
- Biliciler, Raghunathan, and Ward (2021), "Consumers as naïve physicists: How visual entropy cues shift temporal focus and influence product evaluations," *Journal of Consumer Research*.

Session 4: Judgment heuristics

Monday, June 27th, 2022

- Tversky, Amos and Daniel Kahneman (1974). Judgment under uncertainty: Heuristics and biases. *Science*, 185, 1124-1131. (Reprinted as the first chapter in Kahneman, Slovic, and Tversky, Judgment under Uncertainty, Heuristics and Biases).
- Levin, Irwin P., and Gary J. Gaeth (1988). "How consumers are affected by the framing of attribute information before and after consuming the product." *Journal of consumer research* 15, no. 3: 374-378.
- Epley, Nicholas, and Thomas Gilovich (2006), "The anchoring-and-adjustment heuristic: Why the adjustments are insufficient." *Psychological science* 17, no. 4: 311-318.

Session 5: Student presentations

Monday, July 4th, 2022

Session 6: Affect heuristic and impulsivity

Wednesday, July 6th, 2022

- Schwarz, N., & Clore, G. L. (1983). Mood, misattribution, and judgments of well-being: informative and directive functions of affective states. *Journal of personality and social psychology*, 45(3), 513.
- Shiv, B., & Fedorikhin, A. (1999). Heart and mind in conflict: The interplay of affect and cognition in consumer decision making. *Journal of consumer Research*, 26(3), 278-292.
- Hoch, S. J., & Loewenstein, G. F. (1991). Time-inconsistent preferences and consumer self-control. *Journal of consumer research*, 17(4), 492-507.

Session 7: Social influence

Friday, July 8th, 2021

- Raghunathan, R., & Corfman, K. (2006). Is happiness shared doubled and sadness shared halved? Social influence on enjoyment of hedonic experiences. *Journal of Marketing Research*, 43(3), 386-394.
- Dwyer, R. J., Kushlev, K., & Dunn, E. W. (2018). Smartphone use undermines enjoyment of face-to-face social interactions. *Journal of Experimental Social Psychology*, 78, 233-239.
- Epley, N., & Schroeder, J. (2014). Mistakenly seeking solitude. *Journal of Experimental Psychology: General*, 143(5), 1980.

Session 8: Consummatory vs. instrumental motives

Monday, July 11th, 2021

- Andrade, Eduardo B., and Joel B. Cohen. "On the consumption of negative feelings." *Journal of Consumer Research* 34, no. 3 (2007): 283-300.
- Baumeister, R. F., Vohs, K. D., Aaker, J. L., & Garbinsky, E. N. (2013). Some key differences between a happy life and a meaningful life. *The journal of positive psychology*, 8(6), 505-516.

- Oishi and Westgate (2021), "A psychologically rich life: Beyond happiness and meaning," *Psychological Review*, forthcoming.

Session 9: Reciprocity and Prosocial behavior

Wednesday, July 13th, 2021

- Dunn, E. W., Aknin, L. B., & Norton, M. I. (2008). Spending money on others promotes happiness. *Science*, 319(5870), 1687-1688.
- Kumar, A., & Epley, N. (2018). Undervaluing gratitude: Expressers misunderstand the consequences of showing appreciation. *Psychological science*, 29(9), 1423-1435.
- Fehr, E., & Gächter, S. (2002). Altruistic punishment in humans. *Nature*, 415(6868), 137-140.
- Gray, K., Ward, A. F., & Norton, M. I. (2014). Paying it forward: Generalized reciprocity and the limits of generosity. *Journal of experimental psychology: General*, 143(1), 247.

Session 10: Final Exam

Friday, July 15th, 2021