A standard portrayal of economic, business and financial decision-making construes all action as rational choice. Yet, pure logic strains credulity as a description of how choices are truly made. This course looks at the perplexing, often maddening behavioral strategies that “real people” rely upon to come to a decision. The course is vital for anyone who fancies a career in government or business, especially a job in finance (wealth, asset and relationship management).

I start with a review of recent psychological research on intuitive judgment, belief formation, memory, risk attitudes, emotion, motivated reasoning, choice over time, and related topics. I introduce concepts such as framing, heuristics, self-control, and conformity. Next, these ideas are illustrated with practical applications to saving and investment decisions, health choices, entrepreneurship, asset valuation and market dynamics, trust between advisors and clients, and management in corporate and government entities. Throughout, some familiarity with conventional economic and financial theories and with standard statistical methods is assumed.

Below, I attach a list of assigned readings; for the most part, they are research articles. All are accessible on the course website. It is critical that you keep up with the readings. Please study them before coming to class. I will ask you questions. Please make sure that you have identified the key insights before our class discussions start. Try to illustrate these ideas with your own examples.

If you want to delve deeper into the course material, a good starting point is Daniel Kahneman’s classic treatise, Thinking, Fast and Slow. In addition, Nudge: Improving Decisions About Health, Wealth, and Happiness, a book authored by Richard Thaler and Cass Sunstein, is enlightening.

My standards of excellence are high. Grading is based on class participation (25%) (judged by attendance, substantive input, course notes, attention and courteousness during class-time); a short paper (25%) (maximum 1,200 words), due before Thanksgiving, exploring additional reading material that I assign to each student on an individual basis; a practice mid-term (25%); and a final exam (25%—50%). The optional mid-term exam reduces the weight of the final exam. The mid-term exam is scheduled for November 5. As a matter of fairness towards all students, I do not reschedule exams. A sample exam is included below. (Surely, it is possible to fail the course but the median final grade is normally a “gentleman’s B.”)

Besides introducing you to a series of new ideas, the course also aims (i) to boost your power to read and think analytically, and (ii) to improve your verbal and written communication skills. If I can be of assistance to you in any way, please do not hesitate to contact me after class or during office hours. I very much welcome your interest and participation in the course.
OVERVIEW: TOPICS AND TIME SCHEDULE

I. BEHAVIORAL THEORIES AND INSIGHTS (11 sessions)

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
</tr>
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<tbody>
<tr>
<td>September 26</td>
<td>Human intuition is fragile</td>
</tr>
<tr>
<td>October 1</td>
<td>Heuristics and biases</td>
</tr>
<tr>
<td>October 3</td>
<td>Prediction</td>
</tr>
<tr>
<td>October 8</td>
<td>Magical thinking and the illusion of control</td>
</tr>
<tr>
<td>October 10</td>
<td>Choice under risk and uncertainty</td>
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<tr>
<td>October 15</td>
<td>Counterfactuals and regret</td>
</tr>
<tr>
<td>October 17</td>
<td>Decisional conflict, stress, and status-quo bias</td>
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<tr>
<td>October 22</td>
<td>Overconfidence and confirmation bias</td>
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<tr>
<td>October 24</td>
<td>Hindsight bias</td>
</tr>
<tr>
<td>October 29</td>
<td>Wishful thinking, selective perception and motivated beliefs</td>
</tr>
<tr>
<td>October 31</td>
<td>Social pressure</td>
</tr>
<tr>
<td>November 5</td>
<td>Midterm exam (first half of the course)</td>
</tr>
</tbody>
</table>

II. APPLICATIONS TO ECONOMICS, BUSINESS & FINANCE (8 sessions)

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 7</td>
<td>Life goals and well-being, including health</td>
</tr>
<tr>
<td>November 12</td>
<td>Self-command and nudge</td>
</tr>
<tr>
<td>November 14</td>
<td>Mental accounting</td>
</tr>
<tr>
<td>November 19</td>
<td>Decisions in organizations</td>
</tr>
<tr>
<td>November 21</td>
<td>Entrepreneurship / competitive judgment</td>
</tr>
<tr>
<td>November 26</td>
<td>Market psychology and overreaction</td>
</tr>
<tr>
<td>November 28</td>
<td>Thanksgiving Holiday</td>
</tr>
<tr>
<td>December 3</td>
<td>Investor psychology</td>
</tr>
<tr>
<td>December 5</td>
<td>Advisors, agents and credibility</td>
</tr>
<tr>
<td>December 9</td>
<td>Final exam (comprehensive)</td>
</tr>
</tbody>
</table>
READING MATERIAL

PART I: BEHAVIORAL THEORIES AND INSIGHTS

1. Human intuition is fragile (September 26 and October 1)

2. Heuristics and biases (October 1)

3. Prediction (October 3)

4. Magical thinking and the illusion of control (October 8)

5. Choice under risk and uncertainty (October 10)

6. Counterfactuals and regret (October 15)

7. Decisional conflict, stress, and status quo bias (October 17)

8. Overconfidence and confirmation bias (October 22)
9. Hindsight bias (October 24)

10. Wishful thinking, selective perception and motivated beliefs (October 29)

11. Social pressure (October 31)

PART II: APPLICATIONS TO ECONOMICS, BUSINESS & FINANCE

1. Life goals and well-being, including health (November 7)

2. Self-command and nudge (November 12)

3. Mental accounting (November 14)

4. Decisions in organizations (November 19)

5. Entrepreneurship and judgments in competitive settings (November 21)

6. **Market psychology and overreaction** (November 26)


7. **Investor psychology** (December 3)


8. **Advisors, agents, and credibility** (December 5)


ADDITIONAL READINGS


**Organization**

Please write a short essay about the research article that you were assigned. Your essay should report on the author’s motivation, the methods that are used, and the manuscript’s key conclusions. In addition, you should evaluate the article, listing its strengths and weaknesses, especially from a practical point of view. Imagine that the text that you compose is intended to be published in *Forbes*, the *Financial Times*, the *Wall Street Journal* or a comparable news outlet. Your short paper, maximum 1,200 words in length, is due before Thanksgiving. Late submissions are not accepted and result in a loss of course credit.

Please submit a paper-printed copy as well as an electronic version of your essay. My e-mail address is wdebondt@seattleu.edu. Thank you!
SAMPLE EXAM

Instructions

1. Please make sure to write down your name, I.D. number, and signature.
2. The exam is closed-book. You have 90 minutes to complete it.
3. There are six questions. Each question carries equal weight. You are only allowed to use one exam-booklet to answer all questions.

Questions

Research articles
Please discuss three of the following five texts.
Discuss motivation, methods & findings, and implications.

1. A. Cooper et al., “Entrepreneurs’ perceived chances for success.”
2. W. De Bondt, “A portrait of the individual investor.”
4. R. Lane, “What rational choice explains.”
5. L. Berlin, “Malpractice issues in radiology.”

Concepts
Please discuss three of the following five concepts:

1. Anchoring-and-adjustment
2. Ambiguity
3. Linear decision models
4. Familiarity bias
5. Hyperbolic discounting
SUPPLEMENTAL INFORMATION

Use of Technology
Please do not operate a laptop, cell phone, or similar devices in class or during exams. (Surfing the web, texting, etc. are very distracting — hence detrimental to learning.) Please turn off your cell phone so it does not ring during class. Audio- or videotaping in class are prohibited without my prior approval. Laptops, cell phones, wristwatches with internet access, foreign language dictionaries and calculators are not permitted during exams.

Classroom Etiquette
I expect students to arrive to class on time. Once there, I expect you to stay until class is adjourned. Please do not begin to pack up your papers and books in anticipation of the end of class.

Academic Policies
The policies include the Academic Grading Grievance Policy and the Professional Conduct Policy. See https://www.seattlevu.edu/redhawk-axis/academic-policies/.

Academic Integrity
Seattle University fosters the pursuit of knowledge and the transmission of ideas within a context that emphasizes moral responsibility for oneself, for others and for society at large. Violations of academic integrity in any form are harmful to the values of the university, to the students’ own development as members of society, and to the pursuit of knowledge and the transmission of ideas. Violations include, but are not limited to, the following: Cheating; plagiarism; fabrication; falsification or sabotage of research data; destruction or misuse of the university’s academic resources; alteration or falsification of academic records; and academic misconduct. Conduct that is punishable under the Academic Integrity Policy could result in further disciplinary action by other university officials and possible civil or criminal prosecution. An academic integrity tutorial is found on SU online.

Academic Resources
This includes Learning Assistance Programs, Research Library Services, the Writing Center and the Math Lab. See https://www.seattlevu.edu/learningcommons/.

Students with Disabilities
If you have, or think you may have, a disability (including an ‘invisible disability’ such as a learning disability, chronic health or mental health condition) that interferes with your performance as a student, you may arrange support services and/or accommodations through Disabilities Services staff located in Loyola 100 (phone: 206 296 5740). Disability-based adjustments to course expectations can only be arranged through this process.

Religious Accommodations
Seattle University reasonably accommodates students who, due to the observance of religious holidays, expect to be absent or endure a significant hardship during certain days of their academic course or program. See the Policy on Religious Accommodations for Students (https://www.seattlevu.edu/media/policies).
Office of Institutional Equity

Title IX of the Education Amendments of 1972 prohibits discrimination based on sex in educational programs or activities that receive federal financial assistance. This prohibition includes sexual misconduct which encompasses sexual harassment and sexual violence. Seattle University is committed to providing a safe and equitable learning, living, and working environment. We offer emergency, medical, and other support resources, as well as assistance with safety and support measures, to community members who have experienced or have been impacted by sexual misconduct. All faculty and staff are required to notify the Title IX Coordinator if they become aware of any incident of sexual misconduct experienced by a student. For more information, please visit https://www.seattleu.edu/equity/. You may also directly contact the Title IX Coordinator (email: oie@seattleu.edu; phone: 206.296.2824).
INSPIRATION

- “The world is comic to those who think and tragic to those who feel.” (Horace Walpole)
- “The future never just happened. It was created.” (Will and Ariel Durant)
- “The world is founded on thoughts and ideas, not on cotton or iron.” (Ralph Waldo Emerson)
- “History is little more than the register of crimes, follies, and misfortunes of mankind.” (Edward Gibbon)
- “What else does the history of ideas prove, than that intellectual production changes its character in proportion as material production is changed? The ruling ideas of each age have ever been the ideas of its ruling class.” (Karl Marx and Frederick Engels)
- “Truth has to be repeated constantly, because error also is being preached all the time, and not just by a few, but by the multitude. In the press and encyclopaedias, in schools and universities, everywhere error holds sway, feeling happy and comfortable in the knowledge of having majority on its side.” (Johann Wolfgang von Goethe)
- “For those who believe, no proof is necessary. For those who don't believe, no proof is possible.” (Stuart Chase)
- “Chance favors the prepared mind.” (Louis Pasteur)
- “Constitutions are more dangerous enemies of truth than are lies.” (Friedrich Nietzsche)
- “Knowledge is of two kinds. We know a subject ourselves or we know where we can find information upon it.” (Samuel Johnson)
- “Markets could not flourish without a strong underlying moral culture, animated by empathy and fellow-feeling, by our ability to understand our common bond as human beings and to recognize the needs of others.” (Adam Smith)
- “I still do not understand exactly how it happened. . . . Those of us who have looked to the self-interest of lending institutions to protect shareholders’ equity, myself included, are in a state of shocked disbelief.” (Alan Greenspan)
- “Management is doing things right; leadership is doing the right things.” (Peter Drucker)
- “If we knew what it was we were doing, it would not be called research, would it?” (Albert Einstein)
- “Rewards and punishments are the lowest form of education.” (Chuang-tzu)
- “Remain true to yourself, for it is from authenticity that you draw your strength.” (Daniel Herrero)
- “Se non e vero, e molto ben trovato.” (Giordano Bruno)
- “Die philosophische Betrachtung hat keine andere Absicht als das Zufällige zu entfernen.” (George Wilhelm Friedrich Hegel)
- “Bei den meisten Erfolgsmenschen ist der Erfolg leider grösser als der Mensch.” (Willi Ritschard)
- “Wo eine Wille ist, ist auch ein Weg.” (Angela Merkel)
- “Les mortels sont égaux; ce n’est pas la naissance; c’est la seule vertu qui fait la difference.” (François-Marie Arouet, penname Voltaire)
- “Rien ne se perd, rien ne se crée, tout se transforme.” (Antoine Lavoisier)
- “De wereld is een schouwtoneel. Elk speelt zijn rol en krijgt zijn deel.” (Joost van den Vondel)