

OPIM/MGMT - 690 – Managerial Decision Making Fall 2009

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All you may need to know if deciding whether to take this course:

After taking this course you should be much better equipped to:

1) Make more effective interventions designed to influence behavior of others such as customers, employees or citizens.

2) Make better managerial decisions that are at least loosely based on data (e.g., hiring, monitoring sales, etc)

1. Overview

1.1 Background

Over the last 30 years or so, psychologists and economists have joined forces to study how people process information and *actually* make decisions, rather than how they *would* make decision if they were fully rational and selfish.

This research program has provided an understanding of how people's decisions deviate from "optimal" ones and the consequences of such deviations. The course is devoted to understanding the nature, causes and implications of these limitations.

1.2 Objectives

The course has two main objectives.

The first is improving the ability of students to, as managers, influence the behavior of others, be it consumers, employees or people outside a business relationship altogether. This is accomplished by expanding the rather limited toolbox that standard economics provides for influencing behavior (namely, incentives and information) with the insights from the aforementioned stream of research.

The second objective is to improve the quality of students' own managerial decisions, primarily by enhancing their *intuitive* empirical ability. People are poor intuitive statisticians, meaning that when they 'just think' about situations for which some data or casual observations exist, they tend to make serious inferential errors, in turn leading to systematically biased decisions. We will study some errors that are particularly important for real world managerial settings and look for easy-to-implement solutions.

1.3 Instruction format

The course is lecture based. It includes a few cases and exercises consisting of simple data analyses. Class discussion is encouraged (but not graded).

1.4 Real world relevance

All content in the course is *applicable* to real-world situations. Because it is based on academic research, however, some of it has *not yet been applied*. This has pros and cons.

On the negative side it means that we, as a class, will sometimes need to speculate as to how a particular finding would be useful in a business setting rather than be able to point to how a particular company implemented a given idea (e.g. going over a 'case').

On the positive side, it means that many of the contents learnt in class are not common knowledge among business professionals or MBA graduates from other institutions.

2. Logistics

2.1 Readings

Two books are required for class: *Nudge*, by Sunstein and Thaler, and *Winning Decisions*, by Russo & Schoemaker. Both are available online. They are popular press books rather than textbooks.

Most additional required readings are available in *.pdf* format from webCafé (click on eReader).

Due to copyright restrictions there is also a bulkpack with five readings.

Finally, there are two required podcasts and one webcasts. Links/downloads available from webCafé.

2.2 Grading:

Final grades will be determined by aggregating:

- Two tests (40% each)
- Numerous 'Preparation-Questions' (20% total)

Tests

Tests contain around 10 short-answer questions. Sample tests will be posted on webCafé .

Test #1 – Wednesday October 28th during regular class time.

Test #2 – Wednesday December 9th during regular class time.

There is no final.

Two-sided cheat-sheet written by test-taker herself is allowed (if typed, font \geq 10).

Tests will be computer based. Students should bring laptops on the day of the test.

Preparation Questions

What they are: Questions posted on webCafé before most (but not all) classes.

Why: Preparation questions are intended as a substitute for a participation grade; they incentivize constant class preparation without introducing a personality bias. They also allow grading more students per class in a more cost effective and less subjective manner.

Discussing these questions with friends is ok. **Submitting somebody else's answer without actively participating in its development is considered a violation of the honor code.**

Feedback on content: Students will not usually receive individual feedback on their answers. We will discuss the questions in class, providing general feedback.

Grading: On any given week a random **subset** of all answers will be graded. Preparation questions are intended for students to learn, not for students to be evaluated, that's what tests are for.

3) Lecture Schedule

Note: schedule is subject to change based upon actual progress in class. New versions of the schedule, if any, will be posted on webCafé.

| Date | Topic | Readings |
|-------------|---|------------------------------|
| Wed, 09-Sep | Introduction | Nudge intro; E1 |
| Mon, 14-Sep | Constructed preferences | E2, W1, {Russo Ch.2&3} |
| Wed, 16-Sep | Reason based choice | n/a |
| Mon, 21-Sep | Mental Accounting (1) | W2 |
| Wed, 23-Sep | Mental Accounting (2) | E3 |
| Mon, 28-Sep | Risk Aversion 1 | E4 |
| Wed, 30-Sep | Risk Aversion 2 | E5; B1 |
| Mon, 05-Oct | Intertemporal choice (1): Preference awareness | B2; W3 |
| Wed, 07-Oct | Intertemporal choice (2): Immediate gratification | B4 |
| Mon, 12-Oct | Social norms | E6 |
| Wed, 14-Oct | Catch-up, Flexible Spending exercise | E7, {Nudge ch. 5 ,9 &11} |
| Mon, 19-Oct | No Class FIP | |
| Wed, 21-Oct | No Class FIP | |
| Mon, 26-Oct | Energy efficiency / Test 1 Preparation | Nudge ch.12 |
| Wed, 28-Oct | Test 1 | |
| Mon, 02-Nov | Relevant information (and not) | B5 |
| Wed, 04-Nov | Sampling (1) - Defining outcomes | E8; E9 |
| Mon, 09-Nov | Sampling (2) - Selection biases | E10 ; B6 |
| Wed, 11-Nov | Sampling (3) - Self-selection biases | E11 |
| Mon, 16-Nov | Aggregating Information (1) | E12 (read after class) |
| Wed, 18-Nov | Aggregating information (2) | |
| Mon, 23-Nov | No Class - (Decision making conference) | |
| Wed, 25-Nov | No Class - Thanksgiving | |
| Mon, 30-Nov | Limits to learning (1) | Russo Chp1,8 & 9 |
| Wed, 02-Dec | Limits to learning (2) | E13,E14,E15 (bring to class) |
| Mon, 07-Dec | Catchup / Test 2 prep | E16 |
| Wed, 09-Dec | Test #2 | |

Reading indicators:

(E): in the eReader (webCafe)

(R) : in the bulk pack

(Nudge #): Book chapter #, from *Nudge*, by Sunstein & Thaler.

(Russo #): Book chapter # from *Winning Decision* by Russo Schoemaker.

(W): files available for streaming/downloading from webCafé.