MASUDEM

MASTER STUDIES IN SUSTAINABLE DEVELOPMENT AND MANAGEMENT

## COURSE OUTLINE

| Name of course | Behavioral Economics for Sustainable Development | | | |
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| Lector | | e-mail: | | |
| Seminar Instructor | | e-mail: | | |
| Week 1 | **Topic 1 - Foundations of Behavioral Economics (Introduction and Overview)** | | Lecture, hours | Seminar, hours |
| | ✓ History and Evolution of Behavioral Economics<br>✓ Principles of Behavioral Economics: Bounded Rationality, Bounded Self-interest, and Bounded Willpower<br>✓ Economic Decision Making: Heuristics and Biases<br>✓ System 1 and System 2: Thinking Fast and Slow | | 2 | 2 |
| Week 2 | **Topic 2 - Expected Utility Theory and Prospect Theory** | | Lecture, hours | Seminar, hours |
| | ✓ Introduction to Expected Utility Theory (definition, historical background, and the fundamental concepts of EUT as a decision-making model.)<br>✓ Exploration of the key assumptions underlying EUT (completeness, transitivity, independence, and continuity).<br>✓ Use of EUT in various contexts (finance, insurance, and risk management).<br>✓ The criticisms and limitations of EUT.<br>✓ Introduction to Prospect Theory (Definition, origins, and the development of Prospect Theory as an alternative to EUT).<br>✓ Key Concepts of Prospect Theory (reference dependence, loss aversion, and probability weighting).<br>✓ Applications of Prospect Theory: Exploring real-world applications in economics, finance, and policymaking.<br>✓ Contrasting Prospect Theory with EUT. | | 2 | 2 |
| Week 3 | **Topic 3 - Nudge Theory and Choice Architecture** | | Lecture, hours | Seminar, hours |
| | ✓ Nudge Theory: Influencing Choice without Restricting Options<br>✓ Designing and Implementing Nudges<br>✓ Case Studies: Nudges in Public Policy | | 2 | 2 |
| Week 4 | **Topic 4 - Heuristics and Behavioral Biases** | | Lecture, hours | Seminar, hours |
| | ✓ Introduction to Heuristics. Exploration of the concept of heuristics as mental shortcuts used in decision-making, an overview of common heuristics like availability, representativeness, and anchoring.<br>✓ Understanding Biases. Examination of biases that arise from relying on heuristics, leading to systematic errors in judgment and decision-making (e.g, confirmation bias, hindsight bias, and overconfidence).<br>✓ Real-World Applications and Impact. How heuristics and biases influence decisions in various domains (economics, finance, healthcare, and policy-making).<br>✓ Critical Evaluation and Debates. The critiques and debates surrounding the use of heuristics and biases in behavioral economics, strengths, limitations, and the ongoing research. | | 2 | 2 |

| | | Lecture, hours | Seminar, hours |
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| Week 5 | **Topic 5 - Intertemporal Choice** | | |
| | ✓ Time Preferences and Discounting, how individuals value rewards at different points in time.<br>✓ Exponential Discounting.<br>✓ Applications of Intertemporal Choice in Policy and Personal Decision Making (application to such areas as savings, investment, consumption, and environmental policy). | 2 | 2 |
| Week 6 | **Topic 6 - Behavioral Game Theory** | | |
| | ✓ Understanding Game Theory from a Behavioral Perspective<br>✓ Cooperation, Fairness and Reciprocity<br>✓ Case Studies: Applying Behavioral Game Theory in Real-world Contexts<br>✓ Applications: Endowment Effect and Behavioral Finance | 2 | 2 |
| Week 7 | **Topic 7 - Behavioral Economics in Policy Design** | | |
| | ✓ Role of Behavioral Economics in Public Policy<br>✓ Designing Policies with Behavioral Insights<br>✓ Case Studies: Behavioral Economics in Environment, Health, and Public Finance Policies | 2 | 2 |
| Week 8 | **Topic 8 - Behavioral Economics and Environmental Decisions** | | |
| | ✓ Cognitive Biases and Environmental Decisions<br>✓ Behavior-based Policies for Environmental Protection<br>✓ Case Studies: Behavioral Interventions in Environmental Policy<br>✓ Application: Procrastination | 2 | 2 |
| Week 9 | **Topic 9 - Behavioral Economics and Social Norms** | | |
| | ✓ Influence of Social Norms on Economic Behavior<br>✓ Harnessing Social Norms for Sustainable Outcomes<br>✓ Case Studies: Social Norms and Public Policy | 2 | 2 |
| Week 10 | **Topic 10 - Global Perspectives in Behavioral Economics** | | |
| | ✓ Behavioral Economics in Different Cultural and National Contexts -behavioral economics from a global standpoint, how different societies and cultures may influence and be influenced by behavioral economics principles.<br>✓ Global Case Studies - international case studies where behavioral economics has been applied, such as public policy in the UK (BIT), healthcare in the US, saving schemes in Africa, environmental policies in the European Union, and others.<br>✓ Global Trends and Future Directions - ongoing trends in behavioral economics across the globe, future directions of behavioral economics in response to the increasingly global nature of many economic and sustainability challenges. | 2 | 2 |
| Week 11 | **Topic 11 - Fairness and Social Preferences and Happiness** | | |
| | ✓ Behavioral Economics of Fairness and Social Preferences. Fairness and social preferences through the lens of behavioral economics, how individuals make economic decisions influenced by concerns for equity, altruism, and reciprocity. | 2 | 2 |

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| | ✓ Happiness in Behavioral Economics. The concept of happiness within the framework of behavioral economics, how subjective well-being interacts with economic choices, consumption patterns, and overall life satisfaction.<br>✓ Interconnection of Fairness, Social Preferences, and Happiness. The relationship between fairness, social preferences, and happiness within the context of behavioral economics.<br>✓ Behavioral Economic Applications and Policy Implications. How the behavioral economic principles of fairness, social preferences, and happiness can be applied to shape policies, corporate strategies, and community interventions, insights from empirical research and real-world case studies. | | | |
| Week 12 | **Topic 12 - Final Project**<br>✓ Identifying a Behavioral Economics Problem related to sustainable development in Thailand or Indonesia<br>✓ Designing a behavioral intervention to address the problem<br>✓ Creating a proposal and presentation for the intervention | | 2 | 2 |

## RECOMMENDED SOURCES

*Key references:*

1. Allcott, H., & Mullainathan, S. (2010). Behavior and Energy Policy. Science, 327(5970), 1204–1205.
2. Ariely, D. (2010). Predictably Irrational, Revised and Expanded Edition: The Hidden Forces That Shape Our Decisions. Harper Perennial.
3. Camerer, C. F. (2003). Behavioral Game Theory: Experiments in Strategic Interaction. Princeton University Press.
4. Duflo, E., & Banerjee, A. (2011). Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty. PublicAffairs.
5. Frank, R. H. (2018). The Economic Naturalist: In Search of Explanations for Everyday Enigmas. Basic Books.
6. Halpern, D. (2015). Inside the Nudge Unit: How Small Changes Can Make a Big Difference. Ebury Press.
7. Kahneman, D. (2013). Thinking, Fast and Slow. Farrar, Straus and Giroux.
8. List, J., & Gneezy, U. (2014). The Why Axis: Hidden Motives and the Undiscovered Economics of Everyday Life. Random House.
9. Mullainathan, S., & Shafir, E. (2013). Scarcity: Why Having Too Little Means So Much. Macmillan.
10. Ostrom, E. (1990). Governing the Commons: The Evolution of Institutions for Collective Action. Cambridge University Press.
11. Shafir, E. (2013). The Behavioral Foundations of Public Policy. Princeton University Press.
12. Thaler, R. H. (2016). Misbehaving: The Making of Behavioral Economics. W. W. Norton & Company.
13. Thaler, R. H., & Sunstein, C. R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press.
14. Tversky, A., & Kahneman, D. (1981). The Framing of Decisions and the Psychology of Choice. Science, 211(4481), 453-458.
15. Wilkinson, N., Klaes, M. (2012) An Introduction to Behavioral Economics. Palgrave Macmillan.
16. Shogren, J. F. (2012). WAEA Keynote Address Behavioral Environmental Economics: Money Pumps & Nudges. Journal of Agricultural and Resource Economics, 37(3), 349–360.

17. Shogren, J. F., & Taylor, L. O. (2008). On Behavioral-Environmental Economics. Review of Environmental Economics and Policy, 2(1), 26–44

*Suggested readings:*

1. Camerer, C. (1999). Behavioral economics: Reunifying psychology and economics. Proceedings of the National Academy of Sciences, 96(19), 10575–10577. doi:10.1073/pnas.96.19.10575
2. Thaler, Richard H. (2016). Behavioral Economics: Past, Present, and Future. American Economic Review, 106(7), 1577–1600. doi:10.1257/aer.106.7.1577
3. Nikos Nikiforakis (2010).For the Students: Experimental Economics., 43(3), 337–345. doi:10.1111/j.1467-8462.2010.00607.x
4. Banerjee, A. V.; Cole, S.; Duflo, E.; Linden, L. (2007). Remedying Education: Evidence from Two Randomized Experiments in India. The Quarterly Journal of Economics, 122(3), 1235–1264. doi:10.1162/qjec.122.3.1235
5. Daniel Kahneman and Amos Tversky (1979). Prospect Theory: An Analysis of Decision under Risk. Econometrica, 47(2), 263–292. doi:10.2307/1914185
6. Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. Science, 185(4157), 1124–1131. https://doi.org/10.1126/science.185.4157.1124
7. Richard Thaler (1981). Some empirical evidence on dynamic inconsistency. , 8(3), 0–207. doi:10.1016/0165-1765(81)90067-7
8. Loewenstein, George F.; Prelec, Dražen (1993). Preferences for sequences of outcomes.. Psychological Review, 100(1), 91–108. doi:10.1037/0033-295x.100.1.91
9. Drazen Prelec; Duncan Simester (2001). Always Leave Home Without It: A Further Investigation of the Credit-Card Effect on Willingness to Pay. , 12(1), 5–12. doi:10.1023/a:1008196717017
10. Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. Science, 185(4157), 1124–1131. https://doi.org/10.1126/science.185.4157.1124
11. Dayan, E., & Bar-Hillel, M. (2011). Nudge to nobesity II: Menu positions influence food orders. Judgment and Decision Making, 6(4), 333–342.
12. Homonoff, Tatiana A. 2018. "Can Small Incentives Have Large Effects? The Impact of Taxes versus Bonuses on Disposable Bag Use." American Economic Journal: Economic Policy, 10 (4): 177-210.
13. Behavioural Insights Team: Applying Behavioural Insights to Charitable Giving, dostupné online https://www.bi.team/publications/applying- behavioural-insights-to-charitable-giving/
14. Ernst Fehr and Simon Gächter (2000). Cooperation and Punishment in Public Goods Experiments. The American Economic Review, 90(4), 980–994. doi:10.2307/117319
15. Fehr, Ernst; Gächter, Simon (2000). Fairness and Retaliation: The Economics of Reciprocity. Journal of Economic Perspectives, 14(3), 159–182. doi:10.1257/jep.14.3.159
16. Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving. Journal of Political Economy, 112(S1), S164– S187. doi:10.1086/380085
17. Applying Behavioral Insights to Improve Tax Collection : Experimental Evidence from Poland, dostupné online: https://openknowledge.worldbank.org/bitstream/handle/10986/27528/116046-WP-Tax-Collection-PUBLIC.pdf?sequence=1&isAllowed=y
18. Shlomo Benartzi and Richard H. Thaler (1995). Myopic Loss Aversion and the Equity Premium Puzzle. The Quarterly Journal of Economics, 110(1), 73–92. doi:10.2307/2118511
19. Hirshleifer, David A., Behavioral Finance (August 15, 2014). Available at SSRN: https://ssrn.com/abstract=2480892 or http://dx.doi.org/10.2139/ssrn.2480892

20. Banerjee, Abhijit V.; Duflo, Esther (2009). The Experimental Approach to Development Economics. Annual Review of Economics, 1(1), 151–178. doi:10.1146/annurev.economics.050708.143235
21. Bertrand, Marianne; Mullainathan, Sendhil; Shafir, Eldar (2004). A Behavioral-Economics View of Poverty. American Economic Review, 94(2), 419–423. doi:10.1257/0002828041302019

*Selected internet sources:*

https://www.behavioraleconomics.com/

https://www.reddit.com/r/BehavioralEconomics/

https://advanced-hindsight.com/

https://behavioralscientist.org/

https://danariely.com/

https://bppblog.com/

| ASSESSMENT CRITERIA | |
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| Weekly Assignments | Maximum 15 points |
| Midterm Exam | Maximum 20 points |
| Final Project | Maximum 40 points |
| Class Participation | Maximum 15 points |

**SEPTEMBER 2023**

**ANETTA CAPLANOVA**

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