MGT 292-2 & MGP 292-1     Terrance Odean
Behavioral Approaches to Decision Making     Winter 2001

1. General Information

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2. Course Description

   Over the last 25 years, psychologists have come to better understand the processes by which people make judgments and decisions. They have identified common judgment and decision heuristics and the biases associated with these. An understanding of one's own decision biases and those of others is an important tool for managers. Behavioral Decision Theory has also contributed to our understanding of financial markets.

   In this course we will study common biases and heuristics identified by psychologists. Topics will include overconfidence, the attribution theory, the representative heuristic, the availability heuristic, anchoring and adjustment, fairness, and prospect theory. We'll discuss the relevance of these for managers. A substantial portion of the course will be devoted to behavioral finance, the study of how systematic departures from rationality affect financial markets and the welfare of investors.

3. Prerequisites

   Core course in finance.

4. Course requirements.

   A. Class participation: 10% of course grade.
   
   B. Midterm examination: 30% of course grade.
   
   C. Final examination: 60% of course grade.
Classroom demonstrations.

A variety of classroom demonstrations will be conducted. Some of these are in the form of games and auctions played for real money. Students may win or lose money during these demonstrations. You will be paid their winnings and expected to pay your losses according to the rules of the game. (E.g., if yours is the winning bid in an auction, you must pay your bid—and receive your prize—according to the rules of the game. Be sure that you understand the rules of the game before you play. You are not required to participate in any game or demonstration involving real money. Choosing not to participating will not affect your grade. You must decide whether or not to participate before the game or demonstration begins. During the course of all the games and demonstrations, more money will be paid out to students than paid in by them. However, some students will pay more money than they receive, and some demonstrations will result in net losses to students in aggregate.

5. Textbooks, reader, and class handouts.

Specific reading assignments will be announced one class session in advance on the class outlines. The reading assignment should be completed before the class meets.

The text for this course is:


The articles in the reader are:


Some additional readings will be handed out in class.

The following books, though not required for this course, are recommended to anyone who wants to read more about decision making, biases, and heuristics.

Judgment in Managerial Decision Making, by Max Bazerman.

Rational Choice in an Uncertain World, by Robyn M. Dawes.


The Psychology of Judgment and Decision Making, by Scott Plous.

7. **Topic sequence.**

The course will follow the general sequence set out below, though this outline may be modified during the quarter.

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