

National University of Singapore
NUS Business School
Department of Management and Organization

MNO4313E SIMHC: Managerial and Organizational Cognition

Session: Semester 1, AY2014/15
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TA: TBD

Whom to Contact:

For conceptual issues related to course material: Professor
For administrative / logistics / technical issues: TA

Course Objectives

The field of microeconomics defines how rational people should make decisions. Yet extensive research in psychology shows that people deviate from the rational model in many different ways. Rather than making decisions consistent with the rational model, people often use a variety of rules and heuristics that lead to suboptimal decision making in many situations.

Much of our discussion will put the spotlight on our selves, highlighting the many ways in which intelligent people with excellent training like us still fall prey to various decision making traps. An improved understanding of how you tend to make decisions versus how you should make decisions will greatly increase your effectiveness as future leaders.

In addition to introducing students to key findings from research in behavioral decision making, this course will discuss numerous business implications and applications of these findings. We will study both how to improve our own decision making to be better managers and leaders in business settings and also how to use knowledge of people's decision making biases to influence them and to make more profit.

Teaching mode

This course will involve primarily interactive teaching methodologies. Students will do numerous exercises in class that will demonstrate the decision making traps that even highly intelligent and educated people fall prey to. Class discussion will center on identifying situations in which such decision making biases occur, how to avoid them, and how to use knowledge of decision making biases for profitable purposes.

Assessments (100% Continuous Assessments):

Attendance: 16 points

As this course is primarily learned through in-class demonstrations of decision traps and subsequent discussions, you are expected to attend all sessions. Attendance is absolutely necessary for understanding the concepts covered in the course. Each absence (barring emergencies excused over e-mail before the beginning of class) will lead to a 4 point deduction from the attendance score. If you are absent for more than four classes, the additional attendance point deductions beyond 16 points would be subtracted from the other continuous assessments components.

Participation: 24 points

Students will receive 2 points for making at least one substantial contribution in each class from Week 1 to 12, either in the form of a thoughtful question, a thoughtful response to someone else's question, or a thoughtful analysis related to the traps being discussed. Please put your name tag in front of your seat in every class session to assist us in assessing class participation.

Weekly introspection paragraphs: 30 points

As an important goal of this course is that students apply the concepts they learn in class to their real life decision making from the very beginning, both in your personal and professional lives. To encourage this, you would be asked to submit a one or two paragraph description (maximum 200 words) of an instance in which you found yourself or someone else falling in or avoiding one of the decision traps discussed in class in the past week.

Examples already mentioned in class, either by the professor or by other students, cannot be reused for the weekly introspection submissions. Decision traps discussed in previous weeks before the most recent class session, or decision traps not yet discussed, are also not allowed.

This paragraph has to be submitted online before the class starting time. Submissions time-stamped after this time will be discarded. No submissions would be due the week after guest lectures.

Submissions will be graded on the following criteria:

- (1) Analysis: Event actually reflects the decision making trap that has been claimed to occur (2 points); and
- (2) Suggestions for improvement: How the actor can avoid falling prey to the decision making trap (1 point).

An example would be provided in the first class. Qualitative feedback would be provided for submissions in alternate weeks.

Final essay paper: 30 points

A short final essay paper (5 pages, double-spaced) would ask you to try to challenge the confirmation bias in your everyday interactions with friends and colleagues. Detailed instructions will be handed in Week 8. The paper will be due online on IVLE at 8:00 am on Monday, 24 November.

Note: There are no exams nor any group projects as part of this course.

Readings:

Required textbook: Author - Daniel Kahneman, Title - *Thinking, fast and slow*.

Required additional readings: as specified in syllabus and available on IVLE.

Note: Please do the reading for each week AFTER the respective lecture.

Class Plan:

Session 1:

Topic: Decision making under risk I

Application: Risk aversion, Risk seeking, Loss aversion, Decision Weights

Textbook reading: Chapters 25, 26, 29, 30

Session 2:

Topic: Decision making under risk II

Applications: Loss aversion, Endowment effect, Mental Accounting

Textbook readings: Chapters 27, 28, 32

Additional reading: Thaler (1999): Mental accounting matters.

Session 3:

Topic: Decision making under risk III

Applications: Myopic loss aversion, Influence of prior decisions

Textbook readings: Chapter 31

Additional reading: Benartzi and Thaler (1995): Myopic loss aversion and the equity premium puzzle.

Session 4:

Topic: Judgment and prediction I

Applications: Law of small numbers, Regression to the mean

Textbook readings: Chapters 10, 17, 18

Session 5:

Topic: Judgment and prediction II

Applications: Anchoring, Availability, Representativeness

Textbook readings: Chapters 11, 12, 13, 14, 15

Session 6:

Topic: Choice traps I

Applications: Status quo bias, Confirmation bias, Optimism bias

Textbook readings: Chapters 20, 23, 24

Additional reading: Nickerson (1998): Confirmation bias, a ubiquitous phenomenon in many guises

Session 7:

Topic: Choice traps II

Applications: Decoy effect, Compromise effect, Diversification bias, Intransitivity bias

Additional reading: Simonson (1989): Choice based on reasons: The case of attraction and compromise effects.

Session 8:

Topic: Intertemporal choice

Traps: Intertemporal impulsivity, Opportunity cost bias, Self-commitment devices

Additional Reading: Loewenstein and Thaler (1990): Intertemporal choice

Session 9:

Topic: Egocentric biases

Traps: Projection bias, Better than average effect, False consensus effect, Self-contribution effect, Considering others' judgments

Additional Reading: Ross and Ward (1995): Naïve realism

Session 10:

Topic: Decision evaluation biases

Traps: Hindsight bias, Outcome bias, Social comparison, Peak-end effect

Textbook readings: Chapter 19, 35

Session 11:

Topic: Making decisions about decisions

Traps: Choice overload, Choosing among unpleasant options, Maximizing, Choosing one option at a time

Additional Reading: Gemunden and Hauschildt (1985): Number of alternatives and efficiency in different types of top-management decisions

Session 12:

Topic: Avoiding decision making traps

Solutions: Choice mindset, Acting like a trader, Abstract construal

Reading: Savani, Johnson, and Weber (2012): Construing everyday actions as active decisions

Session 13:

Topic: Summary and Conclusion