

Module Code and Title: MNO4313E SIMHC: Managerial and Organizational Cognition¹

Semester 1, AY2015/2016

Module Instructor: Dr Tong Yew Kwan

Module Description:

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 ourselves, 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 behavioural 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.

Learning Outcomes:

Students will acquire knowledge on the theoretical aspects of decision making, as well as the practical ability to improve their own decision making effectiveness.

Modes of Teaching and Learning:

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.

Modes of teaching and learning: Lectures, in-class experiments/exercises, small group discussions, critical reflection

Syllabus:

(Elaboration of major topics to be covered; subject to minor changes)

Session 1:

Topic: Decision making under risk I

Application: Prospect theory, Gain-loss asymmetry

Textbook reading: Chapters 25, 26

Session 2:

Topic: Decision making under risk II

Applications: Certainty effect, Endowment effect, Loss aversion, Sunk cost

Textbook readings: Chapters 27, 28, 29, 30

¹ Based on course material developed by Assistant Professor Dr Krishna Savani

Session 3:

Topic: Judgment and prediction I

Applications: Law of small numbers

Exercise: Hedge Fund Game

Textbook readings: Chapters 10

Session 4:

Topic: Judgment and prediction II

Applications: Regression to the mean, Anchoring

Exercise: Biopharm-Seltek case

Textbook readings: Chapters 11, 17

Session 5:

Topic: Judgment and prediction III

Applications: Similarity, Pricing, Dilution

Textbook readings: Chapters 14, 15, 16, 33, 34

Session 6:

Topic: Choice traps I

Applications: Decoy effect, Compromise effect, Diversification bias

Required readings:

- (1) Simonson (1989): Choice based on reasons: The case of attraction and compromise effects
- (2) Fox, Ratner, & Lieb (2005): How subjective grouping of options influences choice and allocation: Diversification bias and the phenomenon of partition dependence

Session 7:

Topic: Choice traps II

Applications: Status quo bias, Specification bias, Variety seeking, Intertemporal impulsivity

Textbook readings: Chapter 23

Required readings:

- (1) Hsee et al. (2009): Specification seeking: How product specifications influence consumer preference
- (2) Simonson (1990): The effect of purchase quantity and timing on variety-seeking behavior
- (3) Samuelson & Zeckhauser (1988): Status quo bias in decision making

Session 8:

Guest Speaker: TBA

Session 9:

Topic: Cognitive traps I

Traps: Confirmation bias, Mental accounting

Exercise: Guess the Sequence

Required readings:

- (1) Thaler (1999): Mental accounting matters
- (2) Nickerson (1998): Confirmation bias: A ubiquitous phenomenon in many guises

Session 10:

Topic: Cognitive traps II

Traps: Overconfidence effect, Better than average effect, False consensus effect, Considering others' judgments

Textbook readings: Chapter 24

Required reading: Ross & Ward (1995): Naïve realism

Session 11:

Topic: Decision evaluation biases

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

Textbook readings: Chapter 19, 35

Required reading: Savani & King (2015): Perceiving outcomes as determined by external forces: The role of event construal in attenuating the outcome bias

Session 12:

Topic: The beautiful is good stereotype, Lookism

Traps: Beauty bias, Sexism

Required readings:

- (1) Segal-Caspi, Roccas, & Sagiv (2012): Don't judge a book by its cover, revisited: Perceived and reported traits and values of attractive women
- (2) Försterling, Preikschas, & Agthe (2007): Ability, luck, and looks: An evolutionary look at achievement ascriptions and the sexual attribution bias

Session 13:

Topic: Summary and Conclusion

Readings:

(a) Compulsory/recommended reading:

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

Required additional readings: As specified above and available on IVLE.

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

Pre-requisite(s):

MNO1001 Management and Organisation

Assessment (%):

1. Attendance: 16%
2. Participation: 24%
3. Weekly introspection paragraphs: 30%
4. Final essay paper: 30%

Details:

1. 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.

2. 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.

3. 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 lecture(s).

Submissions will be graded on the following criteria:

- (a) Analysis: Event actually reflects the decision making trap that has been claimed to occur (2 points); and
- (b) 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.

4. 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, 23 November.

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

ACADEMIC HONESTY & PLAGIARISM

Academic integrity and honesty is essential for the pursuit and acquisition of knowledge. The University and School expect every student to uphold academic integrity & honesty at all times. Academic dishonesty is any misrepresentation with the intent to deceive, or failure to acknowledge the source, or falsification of information, or inaccuracy of statements, or cheating at examinations/tests, or inappropriate use of resources.

Plagiarism is 'the practice of taking someone else's work or ideas and passing them off as one's own' (The New Oxford Dictionary of English). The University and School will not condone plagiarism. Students should adopt this rule - You have the obligation to make clear to the assessor which is your own work, and which is the work of others. Otherwise, your assessor is entitled to assume that everything being presented for assessment is being presented as entirely your own work. This is a minimum standard. In case of any doubts, you should consult your instructor.

Additional guidance is available at:

<http://www.nus.edu.sg/registrar/adminpolicy/acceptance.html#NUSCodeofStudentConduct>

Online Module on Plagiarism:

<http://emodule.nus.edu.sg/ac/>