



**Course Title: Behavioral Economics and Ethics**

**Course Number: 98748**

**Number of credit points 2**

Time and place: Fridays 9:00-12:30

**Course Instructor: Asso. Prof. Kinneret Teodorescu**

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Meeting time for students: by appointment

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Meeting time for students: by appointment

## **Syllabus:**

### **Course Content & Scope:**

Traditional economic models often make arbitrary assumptions regarding the way economic agents behave. Behavioral economics is the effort to ground such assumptions in investigation and experimentation of actual human behavior. The first and main part of the course will introduce participants to research in behavioral economics: throughout reviewing varied experimental findings we will explore judgment and decision making biases made by consumers, managers and humans in general. In the second part of the course we will study (un)ethical behaviors: following introduction to moral philosophy and business ethics, we will examine recent findings in behavioral economics to better understand the nature and nurture of (un)ethical behaviors.

### **Course Objectives:**

The main objective is to learn the complex nuances, methodologies, as well as criticism of and about behavioral economics. In addition, and from a practical point of view, participants will learn to identify counterproductive and/or undesirable behaviors, to understand when they are expected to occur and effective vs. ineffective interventions to overcome them.

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## Teaching Methods:

Lectures, discussions, self-experimentation, case studies, class activities.

## Teaching Materials:

Class slides, book chapters and journal papers.

## Readings:

Before/during the course:

Compulsory:

- Ariely, D. (2008). Predictably irrational. New York: HarperCollins.

Recommended:

- Ferrell, O. C., & Fraedrich, J. (2016). Business Ethics: Ethical Decision Making & Cases. Cengage Learning.
- Thaler, R. H., & Sunstein, C. R. (2009). Nudge: Improving decisions about health, wealth, and happiness. Penguin.

During the course:

Recommended: detailed in the course plan below.

## Student Assessment:

12% active participation in 6 out of the 7 lessons (excluding the exam)\*

36% weekly personal examples (a short paragraph where one of the topics covered in class or readings is exemplified through a real life experience, to be submitted via Moodle after 6 out of the 7 lessons)\*

52% exam (multiple-choice, based on class material and compulsory reading)

\* Reserve duty and special cases please contact the TA after the first class.

**Exam date: December 24, 2024**

## Course Plan:

### **Lesson 1 (1.11.24): Introduction and Behavioral economics origins**

- Stages in the decision-making process
  - Biases and evolutions
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- Expected utility theory
- Violation of EU axioms

Camerer, C., & Loewenstein, G. (2004). *Behavioral economics: Past, present, future*. Chapter 1 in "Advances in behavioral economics"

Tversky, A., & Shafir, E. (1992). The disjunction effect in choice under uncertainty. *Psychological science*, 3(5), 305-310.

## Lesson 2 (8.11.24): Prospect theory and applications

- Prospect theory
- Applications

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica: Journal of the Econometric Society*, 263-291.

Camerer, C. F. (2004). Prospect theory in the wild: Evidence from the field. *Advances in behavioral economics*, 148-161 (chapter 5).

## Lesson 3 (15.11.24): Inertia biases and mental accounting

- Inertia biases
- Mental accounting

Johnson, E. J., & Goldstein, D. (2003). Do defaults save lives?. *Science*, 302(5649), 1338-1340.

Thaler, R. (1999). Mental accounting matters. *Advances in behavioral economics*, chapter 3.

Vigna, S. D., & Malmendier, U. (2006). Paying not to go to the gym. *The American Economic Review*, 96(3), 694-719.

**No class on November 22nd!**

## Lesson 4 (29.11.24): 2 systems and judgment biases

- 2 systems, visceral states and self-control
- Judgment biases

Tversky, A., & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *science*, 185(4157), 1124-1131.

## Lesson 5 (6.12.24). Ecological rationality and learning

- Gigerenzer's criticism and ecological rationality
  - Decisions from experience
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Todd, P. M., & Gigerenzer, G. (2000). Précis of simple heuristics that make us smart. *Behavioral and brain sciences*, 23(05), 727-741.

Erev, I., & Roth, A. E. (2014). Maximization, learning, and economic behavior. *Proceedings of the National Academy of Sciences*, 111(Supplement 3), 10818-10825.

Erev, I., & Rodensky, D. (2004). Gentle enforcement of safety rules. A Final Report of a Research Supported by the Committee for Accident Prevention in the Israeli Ministry of Industry & Commerce. *Technion, Haifa, Israel. Hebrew*.

## **Lesson 6 (13.12.24): Ethics and experimental investigations of dishonesty**

- Moral philosophy: deontology vs. utilitarianism
- Experimental findings in behavioral ethics

Bartels, D. M., & Pizarro, D. A. (2011). The mismeasure of morals: Antisocial personality traits predict utilitarian responses to moral dilemmas. *Cognition*, 121(1), 154-161.

Gneezy, U. (2005). Deception: The role of consequences. *The American Economic Review*, 95(1), 384-394.

Mazar, N., Amir, O., & Ariely, D. (2008). The dishonesty of honest people: A theory of self-concept maintenance. *Journal of marketing research*, 45(6), 633-644.

Shalvi, S., Dana, J., Handgraaf, M. J., & De Dreu, C. K. (2011). Justified ethicality: Observing desired counterfactuals modifies ethical perceptions and behavior. *Organizational Behavior and Human Decision Processes*, 115(2), 181-190.

Gerlach, P., Teodorescu, K., & Hertwig, R. (2019). The truth about lies: A meta-analysis on dishonest behavior. *Psychological bulletin*, 145(1), 1-44.

## **Lesson 7 (20.12.24): Implications and business ethics**

- Enforcement studies
- Business ethics

Loe, T. W., Ferrell, L., & Mansfield, P. (2000). A review of empirical studies assessing ethical decision making in business. *Journal of business ethics*, 25(3), 185-204.

Teodorescu, K., Plonsky, O., Ayal, S., & Barkan, R. (2021). Frequency of enforcement is more important than the severity of punishment in reducing violation behaviors. *Proceedings of the National Academy of Sciences*, 118(42).