**Behavioral Economics and the Experimental Approach**

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| Name of the Faculty: | Ritwik Banerjee |
| Designation/Affiliation: | Associate Professor, IIM Bangalore |
| Teaching Area:  (such as Finance & Accounting; Marketing; Production & Operations Management; Strategy) | Economics |
| This course may be offered to: | SNOC  MBA level |
| Total Credits (No. of hours): | 3 credits (47 hours) |
| Specify the Year and Month: | Aug 2025-Dec 2025 (SNOC) |
| Course Type: | Elective |
| Grading Norms | Quantitative |

**Course Summary**

The purpose of this course is to inform future managers, analysts and consultants of the deeper psychological processes which underlie decision making. The course will enable the students to incorporate the insights into marketing, human resource practices, finance and business strategies.

How a woman (or a man) fares in life depends to a large extent on a series of decisions that she takes. However, the process of how we arrive at decisions is often very complex. To keep things simple, economists assumed away much of the complexity and developed a rather simplistic framework for analyzing human behavior. The framework came to be known as the Rational Actor Model, where human beings were assumed to have many super human power. Let’s call them *homo economicus* or simply, *Econs*. *Econs* are willful, selfish and have perfect foresight while also possessing extraordinary abilities to make complex calculation at very short period of time. Behavioral Economics was born as an antithesis to the Rational Actor Model. In this alternative paradigm, human beings were assumed to be less selfish and smart, prone to mistakes and procrastinations and often times myopic. Let’s call them *homo behavioralis* or *Humans*. Do Humans sound more like you and me or for that matter, your neighbor next door?

Consider the following: ask the person on your left the answer to the following: 1 x 2 x 3 x 4 x 5 x 6 x 6 x 7 x 8 x 9 = **?** To the one on your right: 9 x 8 x 7 x 6 x 5 x4 x 3 x 2 x 1=**?** Chances are that the one on your right will quote a higher number. The reason is they are *Humans*. If they were all *Econs*, the answer they would give would all be the same and it would indeed be the correct answer.

Each topic covered in this course will have two facets. First, students will get a broad overview of important results from behavioral economics and psychological aspects of economic decision making. Second, the students will see applications corresponding to these results. The course will also introduce the students the idea of experimentation - the methodological tool in which one thing is changed at a time which in turn makes causal inference possible. Finally, the course will draw heavily from the Indian cultural context, thereby giving the students a flavor of the cultural specificity and norm of an emerging economy such as India. Overall, the participants will have a better understanding of people and how they make decisions, which in turn will allow them to take effective managerial decisions.

Prerequisites: Completion of first year core courses in an MBA curriculum is preferred.

**Learning Objectives / Outcomes**

The objective of this course is to deliver:

* + **Conceptual fundamentals** governing how decisions are made.
  + **Ample business applications** of important results and principles of behavioral economics.

This course will enable students to have a better understanding of people and how they take decisions, which in turn will lead to effective decision making in the context of management. The course will also aim to sensitize students to the behavioral specifities and cultural norms of emerging economics like India. Knowledge of such local cultural norms will help students have a better understanding of the Indian context which in turn will help them negotiate the unique challenges of conducting business in the global South.

**Pedagogy**

A variety of approaches will be used – lectures will contain short cases or caselets, presented in the form of Business Applications and newspaper articles. In class exercises in the form of Demonstration Problems and Examples will also be used. The lecture slides will contain the essential elements needed for the course. Readings and handouts will be given throughout the course.

The following are the textbooks for the course:

1. *Thinking Fast and Slow* by Daniel Kahneman
2. *Misbehaving* by Richard Thaler
3. *Running Randomized Evaluations: A Practical Guide,* by Rachel Glennester

The following are some of the suggested readings:

1. *Judgement in Managerial Decision Making* by Max. H Bazerman and Don A. Moore
2. *Nudge* by Richard Thaler
3. World Development Report 2013

The experimental approach will rely on several handson dataset based in class exercises. These exercises along with examples will help students see the experimental approach in action. Students are free to perform these exercises in Stata or R or Python. Note: Stata is paid software and needs to be accessed through one’s university.

**Course Evaluation & Grading**

The grading will be qualitative (Excellent / Good / Satisfactory / Failure). However, quantitative grade points may also be provided if needed from any of the participating schools. The final grades will be determined on the following:

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| Component | Unit | Weight |
| Project Presentation | Group | 100% |

The quiz will be closed book.

**Attendance**

As per the institute guidelines, 80% attendance is necessary in order to pass the course. Note: you must have your video camera switched on and microphone turned off, throughout the class, in order for your attendance to count. Under exceptional circumstances, you may have your video camera switched off for a prespecified number of minutes, but only with prior permission.

**Session-wise plan**

Total Contact Hours: 47

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| **Lecture** | **Topic** |
| **1** | **Introduction to Behavioral Economics and the Experimental Approach**  *In class experiment*  Econs and Humans  Reading: “Humans and Econs” Chapter 1, Nudge |
| **2** | **Causality and Correlation**  The Directed Acyclic Graph  The world of counterfactuals  Getting at the Counterfactual: Alternative approaches  The Experimental Approach  Practical application – Introducing datasets in R/Stata |
| **3** | **Why randomize?**  The Experimental Ideal  Balance on observables  Practical application – creating balance tables in R/Stata |
| **4-5** | **How to Randomize?**  Choosing the level of randomization  Which aspects of the program to randomize?  The mechanics of simple randomization  Stratified Randomization  Pairwise randomization  A catalogue of experimental design  Practical application – Executing a randomization in practice |
| **6** | **Outcomes and Instruments**  Specifying Outcomes and Indicators  Specifying Data Sources  Assessing and Field Testing Outcome Measures  Practical application: dataset analysis with insurance takeup as outcome |
| **7-8** | **Statistical Power**  Statistical background to Power  Graphical explanation of the determinants of power  How to design a high powered study  Practical application: Performing power analysis |
| **9-10** | **Estimating the treatment effect**  Threats to identification of the treatment effect  Intent-to-treat analysis (ITT)  Practical application: Estimating ITT in a dataset |
| **11-12** | **Heuristics, Biases and Emotions**  *In class experiment*  How do consumers use heuristics to make decisions? What are the biases in their decision-making process?  Reading: “Part II: Heuristics and Biases” Chapter 10-13, Thinking Fast and Slow |
| **13-14** | **Overconfidence and Exponential Growth Bias**  *In class experiment*  What is exponential growth bias?  Application: personal finance  Application: COVID-19 |
| **15-16** | **Loss Aversion**  Why are losses more painful than gains pleasurable?  Applications of loss aversion  Reading: Chapter 26 and 27, Thinking Fast and Slow |
| **17** | **Mental Accounting**  How do we partition payment streams and set prices?  Reading: Part II – Mental Accounting, Misbehaving, Richard Thaler |
| **18-19** | **Impatience and self-control**  How people really discount the future?  Why do we buy alarm clocks when we actually prefer to sleep in the morning?  Reading: Chapter 11 and 12, Misbehaving |
| **20** | **Perceptions of fairness**  Is UBER’s surge pricing fair?  Is it fair for a hospital to charge surge pricing in times of dengue?  Reading: Chapter 8, Judgement in Managerial Decision Making |
| **21-22** | **Discrimination**  Why does a Black/Dalit/Muslim/Female get paid less than an equally able White/Upper caste/Hindu/Male worker?  Explicit and Implicit biases among managers  Gender differences in self-confidence, competition, risk preference, leadership  Reading: Chapter 16 Personnel Economics |
| **23-24** | **Economics of Gender**  Gender and self confidence  Gender and competition  Gender and low-promotability jobs  Reading: HBR article on low-promotability jobs |
| **25-26** | **Gender and Negotiation**  Systematic differences between male and female in negotiation  Locus of Control  Turnips and Oysters |
| **27-28** | **Nudges and Public Policy: Defaults and Choice Architecture**  How do we design lunchrooms so that children opt for healthier food?  How do we make people save more without changing the interest rates?  Reading: Chapter 4, 5 and 16, Nudge |
| **Additional session** | **Student presentations on the team-based activity** |

**Class Schedule:**

First Lecture: 20th August (Wednesday): 800PM (IST)

Second Lecture: 21st August (Thursday): 930PM (IST)

Every Wednesday and Thursday same time.

No lectures on 1st and 2nd October

27st Lecture: 26th November (Wednesday) 530PM-700PM (IST)

28th Lecture: 27th November (Thursday) 530PM-700PM (IST)

Total Lecture Hours: 42 Hours

Project presentation: 22nd April 530-830PM (IST) and 4th December 5-8PM (IST)

  Presentation hours: 5

Total contact hours: 47

**Profile of Faculty:**

<http://www.ritwikbanerjee.in/>

<https://www.iimb.ac.in/user/53/ritwik-banerjee>