

Discipline: Methods Course

1 Language

English

2 Title

Experimental Research and Behavioral Decision Making

3 Lecturer

Prof. Dr. Christian D. Schade, Humboldt-Universität zu Berlin

Homepage: <https://www.wiwi.hu-berlin.de/de/professuren/bwl/ebdm>

Email: [cgs@wiwi.hu-berlin.de](mailto:cds@wiwi.hu-berlin.de)

Christian D. Schade is a full professor at Humboldt University's School of Business and Economics and holds the chair of Entrepreneurial and Behavioral Decision Making. Furthermore, he is a Research Fellow at Wharton's Risk Management and Decision Processes Center (University of Pennsylvania). His research contributes to a better understanding of decision making in general and of entrepreneurial as well as innovative decision making. He is currently working on novel foundations and perspectives for the decision sciences. His research is mainly based on laboratory experiments, economic psychology and mathematical psychology, as well as quantum mechanics.

4 Date and Location

15.-18.07.2019

Humboldt-Universität zu Berlin
Wirtschaftswissenschaftliche Fakultät
Spandauer Straße 1
10178 Berlin

5 Course Description

5.1 Abstract and Learning Objectives

Various robust deviations from rational decision making have been reported such as loss aversion, probability weighting, status quo bias, overconfidence etc. Understanding those deviations leads to a more realistic modelling of the behavior of different economic actors and to an increased prediction success. In this course, participants will understand those and other important deviations from rationality as well as their theoretical explanations/modelling, e.g., prospect theory and mental

accounting. Most theories have been developed implementing psychological and economic experiments. Whereas psychological experiments are mostly asking the respondents for hypothetical choices, real decisions with actual monetary payoffs are implemented in economic experiments. Half of the course will be concerned with a profound introduction to the several deviations from rationality that have been reported with real decision makers and with the theoretical treatment of those deviations. The other half of the course will deal with different types of experiments and different experimental designs as well as the matching of research question and type of empirical method to be used.

5.2 Content

Whereas the first two days take the form of an interactive lecture and are mostly devoted to laying the basic knowledge in experimental research and behavioral decision theory, the next two days are devoted to specific applications of behavioral decision theory to selected topics in tax compliance, behavioral finance, behavioral insurance, entrepreneurial decisions, venture financing decisions, and consumer behavior. Whereas not all areas of business research are captured in the example studies, the applications are diverse as well as broad enough to have participants from different fields benefit from this course.

5.3 Schedule (including start and end time)

Day I: (15.07.2019)

10:00 – 10:30	Arrival of participants, reception, check-in and introduction
10:30 – 12:00	Short intro to normative versus behavioral decision and game theory as well as experimental versus non-experimental empirical research; distribution of presentation topics for days 3 and 4.
12:00 – 13:00	<i>Lunch break</i>
13:00 – 14:30	Standard prospect theory, status quo bias and exit inertia
14:30 – 14:45	<i>Short break</i>
14:45 – 16:15	Mental accounting and overconfidence
16:15 – 16:45	<i>Coffee break</i>
16:45 – 18:15	Behavioral game theory: coordination despite multiple Nash equilibria

Day II: (16.07.2019)

09:30 – 11:00	What is an experiment?
11:00 – 11:15	<i>Coffee break</i>
11:15 – 12:45	Characteristics of different experimental designs
12:45 – 13:45	<i>Lunch break</i>
13:45 – 15:15	Economic versus psychological experiments
15:15 – 15:45	<i>Coffee break</i>

15:45 – 17:15 Matching research question and empirical method

Day III: (17.07.2019)

09:30 – 11:00 Presentations of the papers by Chan and Park (2015) as well as Franke et al. (2006)

11:00 – 11:15 *Coffee break*

11:15 – 12:45 Presentations of the papers by Camerer and Lovallo (1999) as well as Koellinger et al. (2007)

12:45 – 13:45 *Lunch break*

13:45 – 15:15 Presentations of the papers by Charnes and Gneezy (2010) as well as Weber and Zuchel (2005)

15:15 – 15:45 *Coffee break*

15:45 – 17:15 Presentations of the papers by Schade et al. (2012) as well as Zimmer et al. (2016)

Day IV: (18.07.2019)

09:30 – 11:00 Presentations of the papers by Schwartz et al. (2002) as well as Weitzel et al. (2010)

11:00 – 11:15 *Coffee break*

11:15 – 12:45 Presentations of the papers by Hallsworth et al. (2014) as well as Selten et al. (2007)

12:45 – 13:45 *Lunch break*

13:45 – 15:15 In-class exam (optional)

15:15 – 15:45 Wrap-up & Feedback

5.4 Course format

The course will consist of an interactive lecture (first two days), followed by a seminar part (last two days) where participants present selected papers and their possible extensions (future research). Publication strategies will also be discussed. An optional final exam will be provided. Lectures as well as the seminar parts are based on classical as well as recent journal articles and working papers. The course will be held in English on demand.

Selected literature

Friedman, D., Sunder, S. (1994): *Experimental methods: A primer for economists*. Cambridge University Press, Cambridge (UK) and New York (USA).

Gigerenzer, G., Todd, P. M. and the ABC Research Group (1999): *Simple Heuristics That Make Us Smart*. Oxford University Press, Oxford (UK).

Kahneman, D. and Tversky, A. (1979): Prospect theory: An analysis of decision under risk. *Econometrica* 47, 263-291.

6 Preparation and Literature

6.1 Prerequisites

Master-level education in business, economics, or psychology.

6.2 Essential Reading Material

6.2.1 Reading Material (lecture)

An intensive study of this part of the literature as well as the literature referenced under “selected literature” is obligatory for all participants before the start of the class.

Camerer, C. F. and Lovallo, D. (1999): Overconfidence and excess entry: An experimental approach. *American Economic Review* 89, 306-318.

Campbell, D. T. and Stanley, J. C. (1963): *Experimental and quasi-experimental designs for research*. Houghton Mifflin Company, Boston.

Kahneman, D. and Tversky, A. (1979): Prospect theory: An analysis of decision under risk. *Econometrica* 47, 263-291.

Samuelson, W. and Zeckhauser, R. (1988): Status quo bias in decision making. *Journal of Risk and Uncertainty* 1, 7-59.

Sandri, S., Schade, C. D., Mußhoff, O., and Odening, M. (2010): Holding on for too long? - An experimental study on inertia in entrepreneurs' and non-entrepreneurs' disinvestment choices. *Journal of Economic Behavior and Organization* 76, 30-44.

Schade, C. D. (2005): Dynamics, experimental economics and entrepreneurship. *Journal of Technology Transfer* 30, 409-431.

Schade, C. D., Schröder, A., and Krause, K. (2010): Coordination after Gains and Losses: Is Prospect Theory's Value Function Predictive for Games? *Journal of Mathematical Psychology* 54, 426-445.

Shefrin, H. M. and Statman, M. (1985): The disposition to sell winners too early and ride losers too long: theory and evidence. *Journal of Finance* 40, 777-792.

Thaler, R. H. (1985): Mental accounting and consumer choice. *Marketing Science* 4, 199-214.

6.2.2 Reading Material (seminar)

Whereas it is assumed that everyone is having a deeper look into all of the following articles, each of the participants should prepare two or three of these papers *intensively* and be prepared to present the respective paper, discuss it, and formulate future research opportunities based on that paper. The presenters of the respective papers are fixed before the start of the class. Please send me your preferences three weeks before the start of the class (i.e., until **June 24th, 2019**). I will need a list with a ranking of 4-5 papers you would like to present, and I will come back to you with a set of two to three

papers I would like you to prepare for presentation in class. For each paper, please give a short overview of the research question(s) the paper is trying to address, the methodology pursued, as well as the implications and limitations.

Camerer, C. F. and Lovo, D. (1999): Overconfidence and excess entry: An experimental approach. *American Economic Review* 89, 306-318.

Chan, C. S. R., & Park, H. D. (2015): How images and color of business plans influence venture investment screening decisions. *Journal of Business Venturing* 30, 732-748.

Charness, G. Gneezy, U. (2010): Portfolio Choice and Risk attitudes: An Experiment. *Economic Inquiry* 48, 133-146.

Franke, N., Gruber, M., Harhoff, D., Henkel, J. (2006): What you are is what you like: similarity biases in venture capitalists' evaluations of start-up teams. *Journal of Business Venturing* 21, 802-826.

Hallsworth, M., List, J., Metcalfe, R., Vlaev, I. (2014) (NBER Working Paper No. 20007): The Behaviorist As Tax Collector: Using Natural Field Experiments to Enhance Tax Compliance.

Koellinger, P., Minniti, M., and Schade, C. (2007): "I think I can, I think I can": Overconfidence and entrepreneurial behavior. *Journal of Economic Psychology* 28, 502-527.

Schade, C., Kunreuther, H. C., and Koellinger, P. (2012): Protecting Against Low-Probability Disasters: The Role of Worry. *Journal of Behavioral Decision Making* 25, 534-543.

Schwartz, B., Ward, A., Monterosso, J., Lyubomirsky, S., White, K., Lehman, D. (2002): Maximizing Versus Satisficing: Happiness is a Matter of Choice. *Journal of Personality and Social Psychology* 83, 1178-1197.

Selten, R., Chmura, T., Pitz, T., Kube, S., Schreckenberg, M. (2007): Commuters route choice behavior. *Games and Economic Behavior* 58, 394-406.

Weber, M. and Zuchel, H. (2005), How Do Prior Outcomes Affect Risk Attitude? Comparing Escalation of Commitment and the House Money Effect. *Decision Analysis* 2, 30-43.

Weitzel, U., Urbig, D., Desai, S., Sanders, M., and Acs, Z. (2010): The good, the bad, and the talented. *Journal of Economic Behavior and Organization* 76, 64-81.

Zimmer, A., Gründl, H., Schade, C. D. and Glenzer, F. (2016): An incentive-compatible experiment on probabilistic insurance and implications for an insurer's solvency level. *Journal of Risk and Insurance*. Published online first. <http://onlinelibrary.wiley.com/doi/10.1111/jori.12148/pdf>

6.3 To prepare

All participants are required to read the essential reading material (underlying the lecture) as well as intensively prepare two to three papers for potential presentation (underlying the seminar part) prior to the course.

7 Administration

7.1 Max. number of participants

The number of participants is limited to 20.

7.2 Exam

A 90-minute in-class exam will be offered at day IV (optional).

7.3 Credits

The course (including the exam) is eligible for 6 ECTS.

8 Working Hours

Working Hours	Stunden
Readings from the literature list ("selected literature" and "reading material (lecture)" from the syllabus); this partially prepares for the written exam (see below)	90,00
Intensive reading of two or three papers allocated by the professor and preparation of presentations of those papers	60,00
Participation in class and exams	22,50
Revision of overheads for own presentations based on the content covered in class (in the evenings)	2,50
Additional preparations for written exam, based on the content covered in class (in the evenings)	5,00
Total	180 h
ECTS: 6	