PUBPOL 495: Behavioral Economics and Public Policy
Analysis at the Intersection of Psychology and Economics

Class meetings: Mondays and Wednesdays 1-2:20 pm in Weill 1210
Instructor’s office: Weill 3238
Office hours: Thursdays 10-11:30am, Fridays 9:30-11am or by appointment
Email: smaccini@umich.edu

Course Description
Economics has traditionally focused on the complicated nature of economic institutions, assuming people think and behave in unrealistically simple ways. Psychologists have expanded our understanding of the complex human psyche for over a century. Over the last few decades, “behavioral economists” (and behavioral scientists more generally) have drawn on the insights of psychology to help explain when and why predictions from economic theory do not hold true in real world contexts. Throughout this course, we will establish a framework for applying this nuanced interdisciplinary approach to public policies. We will review related economic concepts—big picture—as needed throughout the course in addition to exploring in depth research from psychology including lab experiments and neuroscience.

In the introductory section of the course, we will survey the historical origins of behavioral economics. The bulk of the rest of the course covers behavioral science concepts relevant for policy. We will start with a few key “heuristics”—shortcuts our minds use (which are sometimes misleading) to respond to an overwhelming world. Next, we will explore why it is so difficult for humans to incorporate uncertainty into everyday decisions in sensible ways. How do humans tend to react to probabilistic information about risk—do we overreact, underreact, or a little of both? We will then spend several weeks exploring why people often respond to temptation in ways that are less than “rational.” Why do we so often plan to work hard tomorrow, but then choose to play when tomorrow comes?

The next section of the course considers how people interact with one another. Here, we will consider what psychological factors drive altruism as well as attitudes towards fairness and inequality. Returning to the theme of human biases, we will consider why our brains are quick to stereotype others. We will then turn to political questions this type of policy analysis inevitably brings—when (if ever) is it appropriate for governments to design policy with the goal of correcting for psychological biases of its citizens?

Throughout the course, we will apply behavioral science to a range of specific policies related to health, work, financial inclusion and stability, development, communal goods, and social insurance. For example, in the section on limited self-control, we will ask why it is so hard to save for a rainy day (or for a drought) even if we have a few dollars to spare that month? Also, why might a smoker appreciate higher cigarette taxes they can’t afford? In terms of social norms underlying public policy, why do some people donate more than their fair share of time or money to social causes, while others “free ride”? In the section on risk perceptions, we will ask whether government policies on risk mitigation should be driven by citizen’s risk perceptions or by expert opinion based on statistics.
Towards the end of the semester, the class will discuss a few extensive policy applications—simultaneously applying a range of behavioral science concepts. For example, why do insured people sometimes respond to deductibles in ways that are not in their own best interest? What motivates people in any job? And what does behavioral science have to say about financial decision-making? Finally, in the last four classes, students will present their final projects.

**Semester grades**

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<tr>
<th>Course requirement</th>
<th>Percentage</th>
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<tr>
<td>Course participation</td>
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<td>In class participation (10%)</td>
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<td>Quick Responses (10%)</td>
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<tr>
<td>Paper 1 (research brief)</td>
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<td>Paper 2 (analytical essay/debate prep)</td>
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<td>Paper 3 (op ed)</td>
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<td>Final project:</td>
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<td>Topic proposal</td>
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<tr>
<td>Backgrounder</td>
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<td>Policy Memo</td>
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<td>Presentation</td>
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**Course requirements**

**Attendance and participation**

This is an interactive course with lots of time spent on class discussion and interactions. I think about course participation broadly. I understand that some people are more hesitant than others to speak up in class settings, and I welcome engagement in course material in office hours as well. Accordingly, only half of the course participation grade is based on participation during class time. For full credit, I expect you to be attentive, thoughtful and respectful during class discussions and exercises as well as during small group time. Quality of your comments is more important than quantity. The other half of the course participation grade is based on Quick Response assignments designed to help you process the assigned readings and prepare to engage in class activities. The Quick Response assignments will be scheduled to open on Canvas just after the previous class (e.g. Wednesday late afternoon for Monday class and Monday late afternoon for Wednesday class) and will close at 10 AM the day of class. In other words, the assignments are *due three hours before the start of the class* for which the assignment prepares you.

Your Quick Responses will be graded check plus, check or check minus. I expect mostly checks on these assignments, which means satisfactory completion. I will assign a check plus for responses that show exceptional thought and effort and use check minuses to signal that you should put more effort into the assignments. In recognition of the fact that life is busy, you can miss up to three of these assignments without penalty to your participation grade. If the rest of the Quick Responses are at least a check, you will receive full credit (an A) for this portion of the class participation grade.

These assignments will vary in format. For example, I may ask you to write one paragraph applying a concept in the reading to a different context or I might ask you to come up with two discussion questions based on the readings. You should respond in complete concise sentences, but I expect your responses to reflect initial thoughts rather than fully baked stances. You should plan on spending 10-15 minutes to complete these assignments before each class (not including the time spent doing the readings of course). Note that there will be no Quick Response assigned on days when a paper is due.

If you must miss class or a Quick Response assignment for illness or other urgent circumstances, email me as soon as you can and we can make appropriate arrangements.
Note on high tech gadgets:
Laptops, ipads, and other high tech gadgets should only be used during class for educational purposes. On line extracurricular activities during class are distracting to me and other students. I view surfing, texting, snapchating, instagraming and other non-class related activities as evidence of subpar class participation. I reserve the right to limit high tech gadgets more strictly if necessary. Note that there is strong evidence that our brains (all of our brains and not just those born before computers) learn more quickly and deeply when we take handwritten notes with pens on paper rather than typing them up.

Writing assignments
This is a writing intensive course, and students will practice writing through a series of paper assignments. You are required to revise one of the first three papers based on my feedback. If the revised draft reflects substantial improvement in response to feedback on the content, structure and style of the writing, your grade for the paper will increase. Late papers will be docked one letter grade increment per 24 hour period (e.g. A to A-) unless you discuss an extension with me in advance (or of course, if there is a last minute emergency). I am available to answer questions about any assignment in office hours or by appointment, but I will not read the complete draft until the draft is handed in. See the separate assignments document for all the details on each writing assignment (handed out and posted on Canvas).

Paper 1: Research brief due 10/16 reporting on the results of a professional study that applies course concepts (maximum length 750 words)

Paper 2: Analytical essay due 11/6 analyzing the setting of risk policy based on expert versus public opinion in preparation for in class debate (maximum length 1000 words)

Paper 3: Op-ed due 11/18 taking a stance on the design of a risk policy (maximum length 750 words)

Final Project: a series of staged assignments on a behavioral economics topic of your choice
- Proposal due 10/28 briefly proposing your topic (maximum length 150 words)
- Backgrounder due 11/27 concisely summarizing the economics and psychology on your topic (maximum length 1000 words)
- Policy memo due 12/17 recommending a strategy rooted in behavioral economics to address a policy problem (maximum length 800 words)
- Presentation in one of the last four classes sharing with classmates your takeaways from your project and playing the role of discussant for other classmates

Contacting me
I am available for questions and comments in person during office hours or by appointment. I encourage you to meet with me in person as I enjoy getting to know students. I typically respond to emails within 24 hours, though not necessarily over the weekend. For logistical questions about the course, make sure to check Canvas.

Inclusivity Statement
Members of the Ford School community represent a rich variety of backgrounds and perspectives. We are committed to providing an atmosphere for learning that respects diversity. While working together to build this community we ask all members to:
- share their unique experiences, values and beliefs
- be open to the views of others
- honor the uniqueness of their colleagues
- appreciate the opportunity that we have to learn from each other in this community
- value one another’s opinions and communicate in a respectful manner
• keep confidential discussions that the community has of a personal (or professional) nature
• use this opportunity together to discuss ways in which we can create an inclusive environment in Ford classes and across the UM community

Class rosters are provided to the instructor with the student's legal name. If you prefer to be called a different name than what is on the class roster, please let me know. Feel free to correct me on your preferred gender pronoun.

**Accommodations for Students with Disabilities**
If you need an accommodation for a disability, please let me know within the first two weeks of classes (or at your earliest convenience for disabilities identified during the semester). As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations. Often some aspects of the course can be modified to facilitate your participation and progress. I will treat any information you provide as private and confidential.

**Student Mental Health and Wellbeing**
The University of Michigan is committed to advancing the mental health and wellbeing of its students. We acknowledge that a variety of issues, such as strained relationships, increased anxiety, alcohol/drug problems, and depression, directly impacts students’ academic performance. If you or someone you know is feeling overwhelmed, depressed, and/or in need of support, services are available. For help, contact Counseling and Psychological Services (CAPS) and/or University Health Service (UHS). For a listing of other mental health resources available on and off campus, visit: [http://umich.edu/~mhealth/](http://umich.edu/~mhealth/).

**Required materials**
The following books are required:
- Daniel Kahneman (2011). *Thinking, Fast and Slow*

All other required readings and videos will be posted or linked on the course website.

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**Course Outline**
*The following schedule and readings may change a bit during the semester*, but the due dates for all assignments are set. The Canvas site will always be up to date.

**PART 1: INTRODUCTION**

**WED SEPT 4 Course Introduction**
*What is behavioral economics (BE) and behavioral science more generally?*
MON SEPT 9 History of Behavioral Economics
What does Adam Smith’s 1759 Theory of Moral Sentiments have to do with the 2017 Nobel Prizes in Economic Science?

*Readings:

*Quick Response 1 (due at 10am)

WED SEPT 11: Humans Versus Econ
Should we be offended when behavioral scientists call us “boundedly rational”?

*Readings:

*Quick Response 2 (due at 10am)

PART 2: PSYCHOLOGICAL FOUNDATIONS—RESPONDING TO A COMPLEX WORLD

MON SEPT 16: Systems 1 and 2
Do we think too fast, too slow or both?

*Readings:
- Daniel Kahneman (2011). Chap 1 “The Characters of the Story”, Chap 4 “The Associative Machine” and Chap 5 “Cognitive Ease” in Thinking, Fast and Slow [Note this is not posted on the course website because we will read much of this book, and so, the book is required for the course]

*Quick Response 3 (due at 10am)

WED SEPT 18: Heuristics: The Big Three (Among Many)
When and why does our mind take shortcuts even though they are sometimes misleading?

*Readings:
  - OPTIONAL (in case you are interested) Amos Tversky and Daniel Kahneman (1974). “Judgment under Uncertainty: Heuristics and Biases,” Science, pp. 1124-1131 [This is the fairly technical article on which the TFS chapters assigned for today are based]

*Quick Response 4 (due at 10am)
**MON SEPT 23: Statistical Thinking**

*Why is it so hard to incorporate statistics into our thinking in sensible ways?*

{Practice integrating findings from a new experiment into our understanding of a psychology concept}

**Readings:**
- Each student will be assigned to read **ONE** of the following *Thinking, Fast and Slow* (Kahneman 2011) chapters **AND** a related psychology journal (TBA):
  - Chap 7 “A machine for jumping to conclusions”
  - Chap 10 “The Law of Small Numbers”
  - Chap 17 “Regression to the Mean”
  - Chap 19 “The Illusion of Understanding”
  - Chap 24 “The Engine of Capitalism”

*Quick Response 5 (due at 10am)*

**PART 3: PSYCHOLOGICAL FOUNDATIONS—INTERNAL STRUGGLES**

**WED SEPT 25: Sorta Rational**

*How do we make decisions when facing risk and uncertainty? Why not use the expected utility model?*

**Readings:**
- Daniel Kahneman (2011). “Bernoulli’s errors,” in *Thinking, Fast and Slow*

*Quick Response 6 (due at 10am)*

**MON SEPT 30: Prospect Theory**

*How do we make decisions when facing risk and uncertainty? How does prospect theory differ from expected utility theory?*

**Readings:**
- Daniel Kahneman (2011). Chap 26 “Prospect Theory” in *Thinking, Fast and Slow*

*Quick Response 7 (due at 10am)*
**WED OCT 2 Prospect Theory in Practice**

Why does losing a coffee mug hurt more than gaining that mug feels good?

*Readings*

- Daniel Kahneman (2011). Chapter 3 “The lazy controller” in *Thinking, Fast and Slow*

*Quick Response 8 (due at 10am)*

**MON OCT 7 Present Bias and Self Control**

Why do we so often plan to work hard tomorrow until... tomorrow comes?

*Quick Response 9 (due at 10am)*

**WED OCT 9 POLICY APPLICATION: Can “commitment devices” solve self-control problems?**

*Readings to prep for Oct 16 class:*

- Karl Sigmund, Ernst Fehr and Martin A. Nowak (2002). “The Economics of Fair Play.” *Scientific American*, January

*Quick Response 10 (due at 10am)*

**MON OCT 14 UM Fall Study Break -- no class**

**PART 4: PSYCHOLOGICAL FOUNDATIONS—SOCIAL INSTITUTIONS**

**WED OCT 16 Inequity Aversion**

What is fair in simulated and real world games?

**PAPER #1 (research brief) DUE**
**MON OCT 21 Cooperation**

*Why do some people shoulder more than their fair share, while others free ride?*

*R*eadings:

*Required for all students:*


*Plus read any one of the following:*


*Quick Response 11 (due at 10am)*

**WED OCT 23 Stereotypes**

*Why are our brains prone to stereotype, and what might mitigate implicit bias?*

*R*eadings:

- Daniel Kahneman (2011). Chap 8 “How judgments happen” in *Thinking, Fast and Slow*

*Quick Response 12 (due at 10am)*

**MON OCT 28 Policy Applications: Social Norms and Environmental Policy**

*Is there a policy upside to peer pressure?*

*R*eadings:

- Nicola Laceteraa and Mario Macis (2010). “Social image concerns and prosocial behavior: Field evidence from a nonlinear incentive scheme” *Journal of Economic Behavior & Organization,* 76 (only pages 225-230 (Sect 1, 2, 3.1) and pages 236-7 (sect 5))
**FINAL PROJECT TOPIC PROPOSAL DUE (in lieu of Quick Response)**

**PART 5: POLITICS AND POLICY IMPLICATIONS**

**WED OCT 30  Behavioral Nudges and Beyond**  
*Why are “nudges”—an early application of BE—controversial as policy? How might behavioral economics shape policy beyond nudges?*

*Readings:*

*Quick Response 13 (due at 10am)*

**MON NOV 4 Persuasion In the Public Interest**  
*How does a brain change its mind, and how should the neuroscience of persuasion affect public policy?*

*Readings:*
- Emily Falk (2015). “How the Brain Changes Its Mind” TEDxGeorgeSchool video of talk, June
- Nicholas Kristof (2009). “Nicholas Kristof’s advice for saving the world“ blog post on outsideronline.com, Nov 30

*Quick Response 14 (due at 10am)*
PART 6: INTERDISCIPLINARY POLICY DESIGN

WED NOV 6 Behavioral Science Policy Design Overview; Debate Preparation (based on Paper #2)

**PAPER #2 (analytical memo) due
- See assignment details for required readings for this paper

MON NOV 11 Debate: Risk Policy

*Quick Response 15 (due at 10am)

WED NOV 13 Financial Insecurity

*Readings:

*Quick Response 16 (due at 10am)

MON NOV 18 Student Loans

*Readings:
- Dan Ariely (2012). “What makes us feel good about our work?” TED talk, October (13:20 minutes)

*Quick Response 17 (due at 10am)
MON NOV 25 Behavioral Hazard and Health Insurance
Does cost sharing lead to “underuse” or “overuse” of health care?

*Readings:

*Quick Response 18 (due at 10am)

WED NOV 27 (day before Thanksgiving break) Workshop: Final Projects

**FINAL PROJECT BACKGROUNDER DUE

MON DEC 2 Student presentations

WED DEC 4 Student presentations

MON DEC 9 Student presentations

WED DEC 11 Student presentations

TUES DEC 17 (UM registrar assigned final exam time)

**FINAL PROJECT POLICY MEMO DUE at 3:30 pm**

**REVISED PAPER #1, 2 OR 3 DUE at 3:30 pm**
**PART 1: INTRODUCTION**

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<tr>
<th>Class Date</th>
<th>Writing Assignment Due Date</th>
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<tr>
<td><strong>Sep 4 W</strong></td>
<td>Course Introduction</td>
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<tr>
<td><strong>Sep 9 M</strong></td>
<td>History of Behavioral Economics</td>
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<td><strong>Sep 11 W</strong></td>
<td>Human Vs Econ</td>
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**PART 2: RESPONDING TO A COMPLEX WORLD**

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<th>Class Date</th>
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<tr>
<td><strong>Sep 16 M</strong></td>
<td>Systems 1 and System 2</td>
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<td><strong>Sep 18 W</strong></td>
<td>Heuristics</td>
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<td><strong>Sep 23 M</strong></td>
<td>Statistical Thinking</td>
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**PART 3: Self Vs Self INTERNAL STRUGGLES**

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<th>Class Date</th>
<th>Writing Assignment Due Date</th>
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<tr>
<td><strong>Sep 25 W</strong></td>
<td>Sorta Rational</td>
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<tr>
<td><strong>Sep 30 M</strong></td>
<td>Prospect theory</td>
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<td><strong>Oct 2 W</strong></td>
<td>Prospect theory in Practice</td>
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<td><strong>Oct 7 M</strong></td>
<td>Present Bias and self control</td>
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<td><strong>Oct 9 W</strong></td>
<td>Policy Application: Commitment Devices</td>
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**PART 4: Self and Others SOCIAL INSTITUTIONS**

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<th>Class Date</th>
<th>Writing Assignment Due Date</th>
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<tr>
<td><strong>Oct 14 M</strong></td>
<td><strong>UM fall break--no class</strong></td>
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<tr>
<td><strong>Oct 16 W</strong></td>
<td>Inequity Aversion</td>
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<td><strong>Oct 21 M</strong></td>
<td>Cooperation</td>
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<td><strong>Oct 23 W</strong></td>
<td>Stereotypes</td>
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<td><strong>Oct 28 M</strong></td>
<td>Policy Application: Social Norms and the Environment</td>
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**PART 5: Politics and Behavioral Science**

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<tr>
<td><strong>Oct 30 W</strong></td>
<td>Behavioral Nudges</td>
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<td><strong>Nov 4 M</strong></td>
<td>Persuasion in the Public Interest</td>
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**PART 6: Interdisciplinary Policy Design**

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<th>Writing Assignment Due Date</th>
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<tr>
<td><strong>Nov 6 W</strong></td>
<td>Behavioral Science Policy Design Overview; Debate Prep</td>
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<tr>
<td><strong>Nov 11 M</strong></td>
<td>Debate: Risk Policy</td>
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<td><strong>Nov 13 W</strong></td>
<td>Financial Insecurity and Scarcity</td>
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<td><strong>Nov 18 M</strong></td>
<td>Student Loans</td>
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<td><strong>Nov 20 W</strong></td>
<td>The Workplace</td>
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<td><strong>Nov 25 M</strong></td>
<td>Behavioral Hazard and Insurance</td>
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<td><strong>Nov 27 W</strong></td>
<td>Workshop: final projects</td>
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**FINAL PROJECT TOPIC PROPOSAL DUE**

**PAPER #1 (op ed) due**

**FINAL PROJECT TOPIC PROPOSAL DUE**

**PAPER #2 (Analytical Memo) DUE**

**PAPER #3 (Op Ed) due**

**BACKGROUNDER DUE**

**FINAL PROJECT: PRESENTATIONS**

**PRESENTATIONS (continued)**

**PRESENTATIONS (continued)**

**PRESENTATIONS (continued)**

**REVISED PAPER (#1, 2 OR 3) and FINAL POLICY MEMO DUE 5pm**