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 1220
Instructor’s office: Weill 3238
Office hours: Thurs 10-11:30, or by appointment
Email: smaccini@umich.edu

Course Description
Economics has traditionally focused on the complicated nature of economic institutions, typically 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. 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?

The bulk of the rest of the course surveys 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 highlight how difficult it is to ignore objectively irrelevant factors like how questions are framed. And finally, we will consider why our brains are quick to stereotype others.

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. 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 three classes, students will present their final projects.
Semester grades

Class participation  15%
Paper 1 (op ed)  15%
Paper 2 (analytical essay)  15%
Paper 3 (research brief)  15%

Final project:
Topic proposal  Pass/Fail-and-revise
Backgrounder  17.5%
Policy Memo  17.5%
Presentation  5%

Course requirements

Attendance and participation
I think about class participation broadly. For full credit, I expect you to be attentive, thoughtful and respectful during class discussions, small group time and written exercises. 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. I will regularly ask you to respond in writing to course readings at the beginning of class, and these will be handed in occasionally as a means of checking student preparation for class (for the purposes of computing the class participation grade). If you are absent for illness or other urgent circumstance, you should email me asap.

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. As a social scientist, I love evidence, and there is solid 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 and any feedback from classmates (depending on the assignment). 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 on the first day and posted on Canvas).

Paper 1: Op-ed due 10/3 taking a stance on whether behavioral nudges should be expanded in a policy area of your choice (maximum length 750 words)

Paper 2: Analytical essay due 10/22 analyzing the setting of risk policy based on expert versus public opinion (maximum length 1000 words)

Paper 3: Research brief due 11/5 reporting on the results of a professional study that applies course concepts (maximum length 750 words)

Final Project: a series of staged assignments on a behavioral economics topic of your choice
- Proposal due 10/29 briefly proposing your topic (maximum length 150 words)
- Backgrounder due 11/21 concisely summarizing the economics and psychology on your topic (maximum length 1000 words)
- Policy memo due 12/18 recommending a strategy rooted in behavioral economics to address a policy problem (maximum length 800 words)
- Presentation in class 12/3, 12/5 or 12/10 sharing with classmates your takeaways from your project
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/.

Required materials
The following books are required:
- Daniel Kahneman (2011). *Thinking, Fast and Slow*
All other readings and videos will be posted or linked on the course website.

Course Outline
The following schedule and readings may change a bit during the semester, but the due dates for all assignments are set. The syllabus on the Canvas site will always be up to date. All required readings and videos will be posted on the course site.
PART 1: INTRODUCTION

WED SEPT 5 Course introduction
What is behavioral economics (BE) and behavioral science more generally? Why should policy analysts and policy makers care about the intersection of psychology and economics?

MON SEPT 10 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:

WED SEPT 12: Behavioral Nudges
Why are “nudges”—an early application of BE—controversial as policy?

*Readings:
- Daniel Hausman and Brynn Welch (2010). “Debate: To Nudge or Not to Nudge.” The Journal of Political Philosophy, 18(1)

MON SEPT 17: Policy Applications—Beyond Nudges
How might behavioral economics shape policy beyond nudges?

*Readings:
- Browse the following websites of several orgs for policy innovation driven by behavioral science:
  - https://bfg_wharton.upenn.edu/
  - ideas42 webpages
  - https://projects.iq.harvard.edu/fhb
PART 2: RESPONDING TO A COMPLEX WORLD

WED SEPT 19: Systems 1 and 2
Do we think too fast, too slow or both?

*Readings:
- Daniel Kahneman (2011). “The Characters of the Story,” Chap 1 and Section in Conclusion on “Humans vs Econ” in *Thinking, Fast and Slow*

MON SEPT 24: Heuristics
When and why does our mind take shortcuts even though they are sometimes misleading?

*Readings:
- Dan Ariely (2010). Chapter 2 “The Fallacy of Supply and Demand” in *Predictably Irrational*

WED SEPT 26: Statistical Thinking
Why is it so hard to incorporate statistics into our thinking in sensible ways?

*Readings:

MON OCT 1: Research Methods (A Brief Aside)
How do we know which hot new research to trust? AND Neuroeconomics: new frontier or overhype?

*Readings:
- Leif D. Nelson, Joseph Simmons, and Uri Simonsohn. “Psychology’s Renaissance.” *Annual Review of Psychology*, 2018: *only pages 512-517* (you can skim rest of paper starting with section entitled “Preventing P-Hacking in Future Research”; read for big picture but don’t worry about any statistical and technical issues that are not familiar to you already)
PART 3: INTERNAL STRUGGLES

WED OCT 3 Sorta Rational
Should we be offended when behavioral economists call us “boundedly rational”?

*Readings:

**PAPER #1 (OP ED) DUE

MON OCT 8 Prospect Theory
How do we make decisions when facing risk and uncertainty?

*Readings:
  - Optional: if you are interested, the original 1984 prospect theory article “Choices, Values, And Frames” by Kahneman and Tversky is reprinted as appendix B in Thinking, Fast and Slow

WED OCT 10 Prospect Theory in Practice
Why does losing a coffee mug hurt more than gaining that mug feels good?

*Readings (in preparation for Paper #2 Analytical Paper due 10/22)
- Paul Slovic (2000). Excerpts from Perceptions of Risk, pages TBD.
- Paul Slovic et al. (2010). “Psychic Numbing and Mass Atrocity.” In E. Shafir (Ed.), The behavioral foundations of public policy, pp. 126-142 (Only read sections 1 thru 6 stopping before 7 “Implications for International Law and Policy”)
- Baron, J. et al (2000). “Determinants of Priority for Risk Reduction: The Role of Worry.” Risk Analysis, 20: 413-428 (read introduction and conclusion sections carefully; skim the rest for big picture, but don’t worry about any statistical techniques and results whose interpretation is not already familiar to you)

MON OCT 15 UM Fall Study Break -- no class
**WED OCT 17 Present Bias**
*Why do we so often plan to work hard tomorrow until... tomorrow comes?*

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

**MON OCT 22 Self-Control**
*Can “commitment devices” solve self-control problems?*

**PAPER #2 (analytical essay) due**

**PART 4: SOCIAL INSTITUTIONS**

**WED OCT 24 Inequity Aversion**
*What is fair in simulated and real world games?*

*Readings:*
- Graeme Haynes and Thomas Gilovich (2010). “’The ball don’t lie’: How inequity aversion can undermine performance.” *Journal of Experimental Social Psychology*, June 25
- Karl Sigmund, Ernst Fehr and Martin A. Nowak (2002). “The Economics of Fair Play.” *Scientific American*, January

**MON OCT 29 Cooperation**
*Why do some people shoulder more than their fair share, while others free ride?*

*Readings:*
*Required for all students:*

*Plus read any one of the following (and be ready to discuss in class):*

**FINAL PROJECT TOPIC PROPOSAL DUE**
WED OCT 31 Social Norms
Is there a policy upside to peer pressure?

*Readings:
- 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))
- David Shai et al. (2012). “The meaning of default options for potential organ donors,” PNAS Jul 30
- Daniel Kahneman (2011). Chapter 4 “Associative machine” and Chap 34 “Frames and Reality” in Thinking, Fast and Slow

PART 5: SEEMINGLY IRRELEVANT FACTORS

MON NOV 5 Framing
Why does it make a difference which of several options is designated the default?

**PAPER #3 (research brief) due

WED NOV 7 Final Project Overview; Exercise on how to write a backgrounder

MON NOV 12 Persuasion
How does a brain change its mind?

*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

WED NOV 14 Stereotypes
Why are our brains prone to stereotype, and what might mitigate implicit bias?

*Readings:
- Daniel Kahneman (2011). Chapter 7 “A machine for jumping to conclusions” and Chap 8 “How judgments happen” in Thinking, Fast and Slow
PART 6: IN DEPTH POLICY APPLICATIONS

MON NOV 19 The Workplace
What makes us feel good about our work?

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

WED NOV 21 Workshop: Final Projects

**FINAL PROJECT BACKGROUNDER DUE

MON NOV 26 Behavioral Hazard and Health Insurance
Does cost sharing lead to “underuse” or “overuse” of health care?

*Readings:

WED NOV 28 Financial Insecurity
How does the psychology of scarcity affect financial decision-making?

*Readings:

MON DEC 3 Student presentations

WED DEC 5 Student presentations

MON DEC 10 Student presentations

**REVISED PAPER #1, 2 OR 3 DUE

TUES DEC 18 **FINAL PROJECT POLICY MEMO DUE at 5PM
# PUBPOL 495: Behavioral Economics and Public Policy
## Course Schedule 2018

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<tr>
<td>Sep 5 W</td>
<td>Course Introduction</td>
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<td>Sep 10 M</td>
<td>History of Behavioral Economics</td>
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<td>Sep 12 W</td>
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<td><strong>PART 2: RESPONDING TO A COMPLEX WORLD</strong></td>
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<td>Statistical Thinkins</td>
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<td>Research Methods (Brief Aside)</td>
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<td><strong>PART 3: INTERNAL STRUGGLES</strong></td>
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<td>Oct 3 W</td>
<td>Sorta Rational</td>
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<td>Oct 8 M</td>
<td>Prospect theory</td>
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<td>Oct 10 W</td>
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<td>Oct 15 M</td>
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<td><strong>PART 6: IN DEPTH POLICY APPLICATIONS</strong></td>
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<td>The Workplace</td>
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<td>Nov 26 M</td>
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