

**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

Course participation	20%
In class participation (10%)	
Quick Responses (10%)	
Paper 1 (research brief)	15%
Paper 2 (analytical essay/debate prep)	15%
Paper 3 (op ed)	15%
Final project:	
Topic proposal	Pass/Fail-and-revise
Backgrounder	15%
Policy Memo	15%
Presentation	5%

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, snapchatting, 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/>.

Required materials

The following books are required:

- Daniel Kahneman (2011). *Thinking, Fast and Slow*
- Richard Thaler (2016). *Misbehaving: The Making of Behavioral Economics*

All other required 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 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:**

- Dan Ariely (2009). Introduction in *Predictably Irrational: The Hidden Forces That Shape Our Decisions*
- Richard Thaler (2017). Chapter 1 “Supposedly Irrelevant Factors“ and Chapter 3 “The List” in *Misbehaving: The Making of Behavioral Economics*

***Quick Response 1 (due at 10am)**

WED SEPT 11: Humans Versus Econs

Should we be offended when behavioral scientists call us “boundedly rational”?

***Readings:**

- William J. Congdon, Jeffrey R. Kling, and Sendhil Mullainathan (2011). Chapter 2 “Psychology and Economics” in *Policy and Choice: Public Finance through the Lens of Behavioral Economics*

***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]
- Jack B. Soll, Katherine L. Milkman and John W. Payne (2015). “Outsmart Your Own Biases” Harvard Business Review, May

***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:**

- Daniel Kahneman (2011). Chap 11 “Anchors”, Chap 12 “The Science of Availability”, Chap 14 “Tom W’s Specialty” and Chap 15 “Linda: Less is More” in *Thinking, Fast and Slow*
 - *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*
- Richard Thaler (2016). Chap 2 “The Endowment Effect” and Chap 16 “Mugs” in *Misbehaving: The Making of Behavioral Economics*

***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*
- Richard Thaler (2016). Introduction to “Part III Self-control 1975-1988”, Chapter 11 “Will power? No problem” and Chapter 12 “The planner and the doer” in *Misbehaving: the Making of Behavioral Economics*
- Calarco, Jessica McCrory (2018). “Why Rich Kids Are So Good at the Marshmallow Test”, *The Atlantic*, June 1

***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:**

- Richard Thaler (2016). Chap 14 “What Seems Fair?” and Chap 15 “Fairness Games” in *Misbehaving: the Making of Behavioral Economics*
- Karl Sigmund, Ernst Fehr and Martin A. Nowak (2002). “The Economics of Fair Play.” *Scientific American*, January
- Richard Thaler (1988). “Anomalies: The Ultimatum Game.” *Journal of Economic Perspectives*, Fall, pp.195-206
- Colin Camerer and Richard Thaler (1995). "Anomalies: Ultimatums, Dictators and Manners." *Journal of Economic Perspectives*, Spring, pp. 209-219
- Dan Ariely, The (Honest) Truth about Dishonesty, Introduction and chapter 1, “Testing the Simple Model of Rational Crime (SMORC),” pp. 1 – 29

***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?

***Readings:**

Required for all students:

- Robyn Dawes and Richard Thaler (1988). "Anomalies: Cooperation." *Journal of Economic Perspectives*. Summer, pp. 187-197
- Sebastian Gluth, Laura Fontanesi (2016). "Wiring the altruistic brain." *Science*, March, pp. 1028-1029

Plus read any one of the following:

- 1) Soyoung Park et al (2017). "A neural link between generosity and happiness." *Nature Communications*, July
- 2) Martijn van den Assem et al (2012). "Split or Steal? Cooperative Behavior When the Stakes Are Large." *Management Science*, January (58:1), 2–20
- 3) Amanda Chuan et al (2018). "Field study of charitable giving reveals that reciprocity decays over time" *PNAS*, Feb 7

***Quick Response 11 (due at 10am)**

WED OCT 23 Stereotypes

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

***Readings:**

- Daniel Kahneman (2011). Chap 8 "How judgments happen" in *Thinking, Fast and Slow*
- Thomas Gilovich and Lee Ross (2016). Chap 1 "The Objectivity Illusion" and Chap 5 "Keyholes, Lenses and Filters" in *The Wisest One in the Room: How You Can Benefit from Social Psychology*
- Iris Bohnet (2016). Chaps 1 "Unconscious Bias Is Everywhere" and Chap 2 "De-Biasing Minds Is Hard" in *What Works: Gender Equality by Design*

***Quick Response 12 (due at 10am)**

MON OCT 28 Policy Applications: Social Norms and Environmental Policy

Is there a policy upside to peer pressure?

***Readings:**

- Erez Yoeli (2018). "Is the Key to Successful Prosocial Nudges Reputation?" *Behavioral Scientist*, Jul 31
- Nicola Lacetera 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))
- Noah J. Goldstein et al (2008). "A Room with a Viewpoint: Using Social Norms to Motivate Environmental Conservation in Hotels" *Journal of Consumer Research*, October, pp. 472-482
- David Shai et al. (2012). "The meaning of default options for potential organ donors," *PNAS* Jul 30

- Daniel Kahneman (2011). Chap 34 “Frames and Reality” in *Thinking, Fast and Slow*
- Crawford Hollingworth and Liz Barker (2019). “Busting Misbeliefs to Improve Women’s Well-being”, Behavioral Scientist.org blog, September 3.

****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:**

- Alix Spiegel (2009). “Using Psychology To Save You From Yourself.” All Things Considered podcast, NPR, June 8
- Thaler, Richard H. and Sunstein, Cass R. and Balz, John P (2012). “Choice Architecture” Chap 25 in *The Behavioral Foundations of Public Policy*, edited by Eldar Shafir
- Cass Sunstein, (2017). “Misconceptions About Nudges” *Journal of Behavioral Economics for Policy*, Sept 6
- George Loewenstein and Nick Chater (2017). “Putting Nudges in Perspective.” *Behavioural Public Policy*, Volume 1(1), May, pp. 26-53.
- Daniel Hausman and Brynn Welch (2010). “Debate: To Nudge or Not to Nudge.” *The Journal of Political Philosophy*, 18(1)
- Jeremy Waldron (2014). “It’s All for Your Own Good” *The New York Review of Books*, Oct 9
- David Johnson (2016). “Twilight of Nudges.” *The New Republic*, Oct 27
- Matthew Darling, Saugato Datta, and Sendhil Mullainathan (2013). “The Nature of the BEast: What Behavioral Economics Is Not.” Center for Global Development Essay, October
- Koen Smets (2018). “There Is More to Behavioral Economics Than Biases and Fallacies.” Post on behavioralscientist.org, Jul 24

***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:**

- Dan Ariely (2010). Ch 11 “The Power of Price: How a 50-Cent Aspirin Can Do What a Penny Aspirin Can’t” in *Predictably Irrational*
- 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

How does the psychology of scarcity affect financial decision-making?

***Readings:**

- Eldar Shafir and Abigail Sussman (2012). “On Assets and Debt in the Psychology of Perceived Wealth.” *Psychological Science*, Vol. 23, No. 1
- Anuj Shah et al (2012). “Some Consequences of Having Too Little.” *Science*, Nov 2, pages 682-685
- Saurabh Bhargava and Day Manoli (2015). “Psychological Frictions and the Incomplete Take-Up of Social Benefits: Evidence from an IRS Field Experiment,” *The American Economic Review*, 105(11) (*read introduction only pages 3489–3494*)

***Quick Response 16 (due at 10am)**

MON NOV 18 Student Loans

How might behavioral economics affect the design of student loans?

****PAPER #3 (op ed) due**

WED NOV 20 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)
- Christopher Olivola and Eldar Shafir (2011). “The Martyrdom Effect: When Pain and Effort Increase Prosocial Contributions,” *Journal of Behavioral Decision Making*, 22 Dec pages 91–105 (*skim statistical results*)
- Michael Norton et al (2012). “The IKEA Effect: When Labor Leads to Love.” *Journal of Consumer Psychology*, July, pages 453-460

***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:**

- Sendhil Mullainathan (2013). “When a Co-Pay Gets in the Way of Health.” *The New York Times*
- Margot Sanger-Katz (2016). “The Big Problem With High Health Care Deductibles.” *The New York Times*, Feb 5
- JPAL (2011). “The Price Is Wrong: Charging small fees dramatically reduces access to important products for the poor.” *Bulletin*, April
- Khazan, Olga (2014). “Tricking People Into Being Healthy.” *The Atlantic*, Dec 7

***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****

PUBPOL 495: Behavioral Economics and Public Policy
Course Schedule 2019

Class Date

Writing Assignment Due Date

PART 1: INTRODUCTION

Sep 4 W Course Introduction
Sep 9 M History of Behavioral Economics
Sep 11 W Human Vs Econ

PART 2: RESPONDING TO A COMPLEX WORLD

Sep 16 M Systems 1 and System 2
Sep 18 W Heuristics
Sep 23 M Statistical Thinking

PART 3: Self Vs Self INTERNAL STRUGGLES

Sep 25 W Sorta Rational
Sep 30 M Prospect theory
Oct 2 W Prospect theory in Practice
Oct 7 M Present Bias and self control
Oct 9 W Policy Application: Commitment Devices

PART 4: Self and Others SOCIAL INSTITUTIONS

Oct 14 M *UM fall break--no class*
Oct 16 W Inequity Aversion
Oct 21 M Cooperation
Oct 23 W Steretypes
Oct 28 M Policy Application: Social Norms and the Environment

PAPER #1 (op ed) due

FINAL PROJECT TOPIC PROPOSAL DUE

PART 5: Politics and Behavioral Science

Oct 30 W Behavioral Nudges
Nov 4 M Persuasion in the Public Interest

PART 6: Interdisciplinary Policy Design

Nov 6 W Behavioral Science Policy Design Overview; Debate Prep
Nov 11 M Debate: Risk Policy
Nov 13 W Financial Insecurity and Scarcity
Nov 18 M Student Loans
Nov 20 W The Workplace
Nov 25 M Behavioral Hazard and Insurance
Nov 27 W Workshop: final projects

PAPER #2 (Analytical Memo) DUE

PAPER #3 (Op Ed) due

BACKGROUND DUE

Dec 2 M **FINAL PROJECT: PRESENTATIONS**

Dec 4 W **PRESENTATIONS (continued)**

Dec 9 M **PRESENTATIONS (continued)**

Dec 11 W **PRESENTATIONS (continued)**

Dec 17 T **REVISED PAPER (#1, 2 OR 3) and FINAL POLICY MEMO DUE 5pm**