Course Overview

This course is intended to provide an overview of the science of judgment and decision making and to enable future marketing managers, industry analysts and management consultants use these findings to help develop more sophisticated and informed marketing and business strategies. The course is also aimed at improving critical thinking more generally.

Successful marketing and business strategy depends on a thorough understanding of how people make decisions. However, traditional models of decision making, especially so-called normative or rational models, have serious limitations. Rather than making decisions in the manner postulated by these models, people often use a variety of rules and processes that lead to (sometimes counterintuitive, but often predictable) decision behavior. For instance, consumers have an exaggerated tendency to select compromise or middle options when making choices and are easily seduced by features of a product that seem to differentiate it from other products (even when these features in fact add no value). Seemingly “irrational” decision phenomena such as these abound. The premise of the course is that a series of similar findings from research in decision-making have powerful business implications.

The purpose of this course is to inform future managers and consultants of people’s decision rules and their associated biases and to enable these future managers and consultants to incorporate such insights in their business and marketing strategies. The course has two facets. First, it gives students a broad overview of important results from various behavioral sciences (e.g., social and cognitive psychology, behavioral finance, consumer behavior) that clarify how people make decisions in the real world. Second, it investigates how these results can be leveraged to design original and more effective marketing and business strategies. Knowledge of these issues can be a significant source
of competitive advantage, because they are unknown to most managers and are not taught in most business schools.

Format

Classroom time will be devoted to a combination of lectures, discussions, exercises, and student presentations illustrating the main concepts. An important feature of the course is that students will be systematically asked to identify and generate original marketing and business applications of the course’s concepts.

Evaluation

*Participation (15%).* The class participation grade will reflect class attendance and the quality of the student’s involvement in the class’s activities and discussions. Near-perfect on-time attendance is expected.

*Short Writing Assignments (25%).* To reinforce the learning process, individual writing assignments will be assigned 5 times throughout the semester. These papers have a 600-word limit. The tentative schedule for these assignments (as well as the assignments themselves) can be found at the end of this syllabus. They are to be submitted electronically prior to class. Late papers will not be accepted except in the case of bona fide emergencies (such as if you’ve fallen and can’t get up) or if you make prior arrangements with the instructor. However, you do have the option of replacing one assignment with the optional writing assignment found at the end of the syllabus. This can replace either a missing assignment or your lowest grade.

The short papers are graded using a five point system. The grades can be interpreted as follows:

- 1 = Some evidence of reading, but little understanding and minimal application of the course concepts to the actual question that was asked.
- 2 = An attempt at applying the course material, but with little or no depth of analysis (possibly just repeating ideas from the reading).
- 3 = A solid application of the course material, with some good points but few creative insights; the majority of papers will receive this grade.
- 4 = A deeper level of thinking than the obvious answer, clearly written, perhaps with creative examples.
- 5 = An exceptional paper, with an original insight and clear analysis. Such papers make me say “I wish I had thought of that!” Very few of these grades are given.

The primary reason for the short writing assignments is to get you thinking seriously about the topics for the days ahead so that the class discussion is more informed and sophisticated. You should be prepared to discuss your paper in class.

*Final Project (25%).* The final project has two components: a 10-15 page paper and a 10-15 minute presentation. The presentations take place on the second to the last day of
class and the paper is due in class the day the presentation is given. There are two project options:

Business Proposal: Describe an original business idea that capitalizes on one or more of the phenomena discussed in the course (a new type of loyalty program, a new way of presenting product assortments, a new type of mutual fund, etc.). Your paper and presentation should clearly outline the proposal and argue for why it should be effective (with references to the appropriate research).

Design a Case: Pick a novel managerial decision from the wild that turned out badly (e.g., a specific dot.com going public too early (or too late), AT&T’s acquisition of cable companies) and analyze it in retrospect applying the principles from this course. Your paper and presentation should clearly document the mistake and explain it with reference to the appropriate judgment or decision making phenomenon (or phenomena), citing the appropriate research.

You have the option of completing this project solo or in groups of up to 3. If you elect to do the project with a group, the group will turn in a single paper and make a single presentation, with each member of the group receiving the same grade.

Note: I recommend meeting with me to discuss your individual or group project well before it is due.

Final Exam (35%). A final exam on the course topics will be given on the last day of class, and is a mix of multiple-choice and short answer questions.

Readings / Slides

Readings are available online. Please note that the readings are copyrighted works provided for your educational purposes only and, in accordance with copyright laws, are not to be copied, distributed, or insulted.

Class slides are posted shortly before each class.

Laptops

No.

Cheating

No.
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<td>Heuristics I</td>
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<td>Sunstein, C. (March 10, 2003). Truth is, sunbathing is probably more dangerous than terrorism. <em>Los Angeles Times</em>.</td>
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Short Writing Assignments

W1 Answer ONE of the following:
1. Suggest at least two ways in which the representativeness heuristic might play a role in the behavior of managers engaged in mergers and acquisitions.
2. Does Madison Avenue understand the representativeness heuristic? How? Find an ad that (implicitly) makes use of the concept and explain how it works. Conversely, find an ad that fails to capitalize on the heuristic and explain how it could have been improved. (If the ad is print just clip it out or make a copy. For a commercial, try to get a copy of the ad on a USB key so I can play it in class. If not, describe it briefly. This will not count against your word limit.)
3. Imagine you are hiring a new employee; how is the representativeness heuristic likely to influence your evaluation? What steps should you take to avoid biases?

W2 One of the lessons of Chase and Dasu (2001) is that customer satisfaction is not merely a sum or average of all of the customer’s experience with the firm. Rather, some things matter more than others. Think of a specific firm or industry that you think does a poor job maximizing customer satisfaction and offer concrete suggestions for improvement.

W3 Answer ONE of the following:
1. Mental accounting, to the extent that it violates fungibility, is (according to economic theory) irrational. Do you think there are any circumstances where mental accounting makes people better off nonetheless? How?
2. Use mental accounting to develop a new pricing strategy for some product or service.

W4 Answer ONE of the following:
1. To deal with self-control problems, many people use the equivalent of sunk costs to commit themselves to an activity. Examples include paying a large annual health club fee rather than paying per visit, or buying season tickets for the theater. Can you suggest other products that might benefit from using prepayment as a self-control device? Devise a marketing strategy to implement this plan.
2. Although people usually procrastinate by postponing the completing of unpleasant tasks, there are also situations in which people procrastinate the enjoyment of something enjoyable, such as drinking a special bottle of wine. For some reason, no occasion ever seems special enough to finish it off, and the activity is continuously postponed. Suppose that you are a seller of luxury goods that have this problem (such as fine wines). How do you get your customers to quit delaying consumption?
W5  Answer each of the following questions as they apply to ONE of Cialdini’s 6 major principles:

1. Can you think of existing business applications or practices—other than the ones mentioned by the author—that capitalize on this phenomenon?

2. Can you think of examples in which businesses are hurting themselves because they are seemingly unaware of this phenomenon? (That is, they would do their business differently if they knew about this phenomenon.)

3. Can you think of a novel way of capitalizing on this phenomenon from a business standpoint?

Optional make-up short writing assignment:

Read Into Thin Air (or the shorter Outside Magazine article available in the reading packet) and answer all of the following questions (although feel free to focus on some more than others):

1. Why are the climbers up there? Consider the motivation and incentives facing each participant. What are the implications for potential decision biases and corrective measures?

2. What are the defining characteristics of the decision-making environment on Mt. Everest? Setting aside the extreme physiological conditions, what are the biggest challenges for good decision making?

3. Describe the decision process used by Hall and Fischer. What mistakes did the guides or members of the climbing teams make during the climb to the summit? Why were these mistakes made? How do these mistakes relate to concepts we have discussed in the course?

4. If you were advising a friend interested in organizing an expedition to the top of Everest (or some other large but potentially dangerous mountain), what advice would you give him or her based on the concepts of this course?