

Name of course:	Experimental Research and Behavioral Decision Making
Instructor:	Prof. Dr. Christian D. Schade
Time frame:	15.07.-18.07.2019
Weekday:	Monday to Thursday
Time:	08:00 – 18:00
Location:	Spandauer Straße 1, room 21a
Proposed amount of ECTS:	6
Max. no. of participants:	5

English description of course:

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.

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.

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.

Essential Reading Material:

Reading Material (lecture)

A study of this part of the literature as well as the literature referenced under “selected literature” is obligatory for all participants.

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.

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 during the first seminar session (day 1).

Camerer, C. F. and Lovallo, 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 Behavioralist 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>

Exam: to be announced