

PSYC 437/537: Decision Making and Risk Management

Fall 2009

Instructor: Professor XT Wang

Place: UED 202

Office: SD Room 311

Phone: 677-5183

Course webpage: <http://www.usd.edu/~xtwang/DM&R>

Time: MWF, 11:00 a.m. - 11:50 a.m.

Office Hours: MWF 12:30-13:30 or by appointment

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This course provides a research overview of the field of behavioral decision making and risk management. We will discuss decision rationalities, theories, research history, psychological values, utility functions, reference points, and personal traits and styles of decision making. We will examine how people perceive risks and make probability judgment, and identify some common biases and traps in making risky decision and inter-temporal choice between an immediate reward and a future reward in financial, social, managerial, political, and cultural contexts. The course is aimed to help better understand, describe, and predict how people make decisions under uncertainty individually and in groups. The course will also offer insights and tools for managing risks and making better decisions.

This course adopts multiple means of teaching and learning, including lectures, stock investment exercise, investment analysis, conducting experiments, student presentations, assignments, in-class exercises, demonstrations and open discussions.

Textbook

David Hardman (2009). *Judgment and Decision Making: Psychological Perspectives*. West Sussex, UK: BPS Blackwell.

Lecture Outlines

Lecture outlines will be made available on the course webpage for download to facilitate taking notes in class. Power point files used in lectures will NOT be for circulation.

Reference Books

Baron, J. (2008). *Thinking and Deciding* (4th Ed.). Cambridge University Press.

Gigerenzer, G., Todd, P.M., & the ABC Research Group. (1999). *Simple Heuristics That Make Us Smart*. New York: Oxford University Press.

Hastie, R., & Dawes, R. (2001). *Rational Choice in an Uncertain World*. Thousand Oaks, CA: Sage.

Hammond, J. S. Keeney, R. L. & Raiffa, H. (2002). *Smart choices: A practical guide to making life decisions*. New York: Broadway Books.

Readings

The lecture notes and additional reading assignments will be posted on the course webpage as the course proceeds.

You should study the relevant chapters, notes and readings before and after each corresponding class.

Course Topics, Readings and Exam Schedule

Topic	Reading Assignments
Brief Review of Behavioral Decision-Making	Chapters 1
Expected Utility Theory and Value Functions	Chapter 7
Judgment and Probability Theory	Chapters 2 & 3
Fast and Frugal Heuristics for Cue Search and Use	Gigerenzer et al., Chapter 4

Decision Making Style
October 2 (Friday)

Exam 1

Notes and in-class exercise

Heuristics and Biases
Reflection Effect and the Framing of Information
Psychological Models of Decision Making
Bounded, Ecological, and Social Rationality
Tri-Reference Point Theory and Applications
Eight Components of Smart Decisions

Chapters 4-6, Kahneman Nobel Lecture
Notes & Additional readings
Chapters 11 & 13
Gigerenzer et al Chapter 1
Notes & Additional Readings
Notes & Additional Readings

November 4 (Wednesday)

Exam 2

Group Decision Making
Economic Games and Negotiation
Attribution Theory
Risk Perception and Risk Domains
Emotions and Cues in Decision Making
Mental Accounting
Intertemporal Decisions

Chapter 13-14 & additional readings
Notes, exercise, & additional readings
Notes & Additional readings
Chapter 12 & Additional readings
Chapter 8 & additional readings
Chapter 8 & additional readings
Chapter 10 & additional readings

December 14 (Monday 8:30-10:00 am) Exam 3

Note: Course topics listed above represent the approximate order in which the topics will be discussed. There may be minor changes in the course and exam schedule.

Investment Project and Assignments

You will be given a hypothetical endowment of \$10,000. Go to Yahoo Finance and use its Stock Screening function (<http://screen.yahoo.com/stocks.html/>) and to select your stocks to form your investment portfolio (My Portfolio) . Note that the operation fee for each transaction is \$10. All your money has to be invested in stocks during the entire simulation period.

You should visit www.investopedia.com/university/stocks/ or other related sites for a basic introduction about stocks.

Record your portfolio and keep tracking each of your transactions, using Excel spreadsheet:

Portfolio: Your name							
Stock symbol	Stock Name	Current Price	Qty	Price Paid	Date & Time	Net Gain or Loss (\$ amount and %)	Market Value
Total							

Conduct your analysis using investment indexes such as company profile, total asset, net revenue, net income, beta, P/E ratio and historical distributions (fluctuation and variation) of the stocks. We will compare and discuss your investment strategies and performance in class on a weekly base.

Assignments. You need to complete your first portfolio by **September 14 (Monday)**. You can adjust and re-construct your portfolio by making any number of new transactions as you want.

Besides the initial portfolio report, you need to write **three** 2-page reports to describe psychological factors that influence your selection and investment and explain your investment strategies. The reports are due on **the day of the first exam, the second exam, and the third exam**, respectively. Besides a hard copy, an electronic copy of each report (MS Word file) and a separate copy of an Excel spreadsheet recording your stock performance should be sent as an email attachment to Karla.Tait@usd.edu. Late submission will result in point reduction. The names for Word and Excel files should follow the format of Your Last and First Name + Report + Number (e.g., WangXTRReport1).

Your investment performance will be evaluated by **December 11** (Friday). The performance will be ranked in terms of percentage of gain. The top three performers will be awarded 5, 4 and 3 credit points, respectively. The corresponding points will be added to the Exam 3 scores of the three receivers.

Experiment Project

To gain some firsthand research experience, each student is required to conduct an intertemporal choice experiment. In particular, you will serve as an experimenter to recruit and run ten participants in a lab. The design and procedure of the experiment and the schedule will be provided by the project coordinator.

Paper

Each undergraduate student will write an 8-page, APA-style paper (not including the title page and reference list) based on a topic chosen from the textbook and additional literature search. Instead of a review, this short paper should focus on one or a few interesting finding(s) in the research of judgment and decision making. The paper is due **December 4** (Friday) and should be sent as an email attachment (in MS Word format) to Karla.Tait@usd.edu. Late submission will result in point reduction. Submissions five days after the due day will not be evaluated. The file name should follow the format of *Your Last and First Name + Report + Number* (e.g., WangXTPaper1).

Course Requirements and Grading Procedure

A. Class attendance and participation. You should come to each class prepared to participate in discussion and exercises. The attendance and participation points will be given based on roll taken periodically. The lectures and in-class activities often go beyond the scope of the textbook.

B. Exams. Materials covered in exams will be taken from lectures, textbook, class discussions/activities and graduate presentations.

Three regular exams will be given. Exam questions will not be accumulative but be largely restricted to topics covered in the corresponding class lectures, textbook chapters, and class discussion/activities.

The score of a missed exam will be counted as zero.

C. Grade Distribution. Your overall average score will be determined based on the following formula:

Exam Average	55%
Stock Investment Project	10%
Experiment Project	10%
Paper	10%
Investment Portfolio Reports	10%
Attendance and Participation	5%

The grading scale for your final grade is as follows:

Overall Average	Final Grade
≥ 90	A
80 - 89	B
65 - 79	C
50 - 64	D
< 50	F

Overall Average = Project 1 + Project 2 + Paper + Reports + Attendance + 0.55 [(E1 + E2 + E3)/3]

Graduate Paper and Presentation. Graduate students, who take this course as Psyc 537, are required to write a 15-page, APA-style paper (not including the title page and reference list) based on an assigned topic chosen from the textbook and your own follow-up literature search. In addition, each graduate student will present the paper with Power-Point in class for 30 minutes.

Besides a hard copy, the presenter needs to submit an electronic copy of presentation with 4 multiple-choice questions related to key issues summarized in the presentation. The presentation ppt document and multiple-choice questions should be sent via email to xt.xiaotian.wang@gmail.com on the day of presentation. Later submission will result in point-reduction. Some exam questions will be selected from these multiple-choice questions.

Graduate Paper Presentation Schedule:

- Presentation 1: September 25 (Friday)
- Presentation 2: October 9 (Friday)
- Presentation 3: October 23 (Friday)
- Presentation 4: November 13 (Friday)
- Presentation 5: November 23 (Monday)

Freedom in Learning.

Under Board of Regents and University policy student academic performance may be evaluated solely on an academic basis, not on opinions or conduct in matters unrelated to academic standards. Students should be free to take reasoned exception to the data or views offered in any course of study and to reserve judgment about matters of opinion, but they are responsible for learning the content of any course of study for which they are enrolled. Students who believe that an academic evaluation reflects prejudiced or capricious consideration of student opinions or conduct unrelated to academic standards should contact Associate Dean Kurt Hackemer to initiate a review of the evaluation.”

Policy on Academic Dishonesty

The College of Arts and Sciences considers plagiarism, cheating, and other forms of academic dishonesty inimical to the objectives of higher education. The College supports the imposition of penalties on students who engage in academic dishonesty, as defined in the “Conduct” section of the University of South Dakota Student Handbook.

No credit can be given for a dishonest assignment. At the discretion of the instructor, a student caught engaging in any form of academic dishonesty may be:

- a. Given a zero for that assignment.
- b. Allowed to rewrite and resubmit the assignment for credit.
- c. Assigned a reduced grade for the course.
- d. Dropped from the course.
- e. Failed in the course.

Disability Policy

Any student who feels s/he may need academic accommodations or access accommodations based on the impact of a documented disability should contact and register with Disability Services during the first week of class. Disability Services is the official office to assist students through the process of disability verification and coordination of appropriate and reasonable accommodations. Students currently registered with Disability Services must obtain a new accommodation memo each semester.