

# Behavioural Economics

## PSYC3310: Specialist Topics In Psychology

Mark Hurlstone  
Univeristy of Western Australia

### Seminar 1: Unit Overview

CSIRO-UWA | Behavioural  
Economics  
BEL | Laboratory

# Topic and seminar leader

Behavioural  
Economics

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Teaching staff

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General  
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What's this  
topic about?

**Mark Hurlstone**

Room 1.41

Office Tel: 6488 3249

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Consultation hours: Wednesdays 2–3pm

# Laboratory tutor

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**Matthew Andreotta**

Room ?

Sanders Building

Email: [matthew.andreotta@research.uwa.edu.au](mailto:matthew.andreotta@research.uwa.edu.au)

All consultation by appointment

# Purpose

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What's this topic about?

- Provide students with the opportunity to develop in depth knowledge of a specific area of contemporary psychology
- To facilitate development of critical evaluation and thinking skills through the appraisal of target research articles drawn from the topic literature
- Obtain experience of planning, designing, and conducting research by completing a small-group problem-based research project
- Develop collaborative research skills
- Obtain research design and written and oral communication skills necessary for advanced study in psychology

# Structure

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What's this topic about?

- The unit is divided into seminars (10×2 hours) and tutorials (10×2 hours)

- Seminars

- in the seminars, you will learn about a specific area of research within the broader course topic
- seminars will be delivered via student presentations
- you will be required to present on a single occasion only
- you will be briefed on your topic two weeks in advance of the date you will be presenting

# Provisional seminar timetable

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What's this topic about?

Week	Date	Seminar Theme
1	30/07	Unit outline
2	06/08	Introduction to behavioural economics
3	13/08	Decision making under certainty
4	20/08	Judgement under risk & uncertainty
5	27/08	Decision making under risk & uncertainty
6	03/09	Mental accounting
7	10/09	Intertemporal choice
8	18/09	Social preferences
	24/09	<b>Study break</b>
9	01/10	Analytical & behavioural game theory
10	08/10	Happiness & utility
11	15/10	<b>Oral presentation</b>
12	22/10	No seminar

- Tutorials

- in the tutorials, you will acquire information relevant to meeting the various assessment items of the unit
- this includes how to write a research proposal and ethics application; how to write psychology papers; how to give oral presentations etc...
- tutorials will also provide the opportunity for group members to plan and discuss their research project together
- some of the tutorials will be set aside for data collection



# Provisional tutorial timetable

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What's this topic about?

Week	Date	Tutorial Theme
1	30/07	No tutorial
2	06/08	Ethics & proposal writing
3	13/08	Participate in class experiment
4	20/08	Literature review & research report
5	27/08	Tips on giving oral presentations
6	03/09	Data analysis
7	10/09	Critical paper review
8	17/09	Data manipulation and graphics in Excel
	24/09	<b>Study break</b>
9	01/10	Introduction to JASP
10	08/10	Introduction to Bayesian data analysis
11	15/10	Drop-in session
12	22/10	No tutorial

# Learning outcomes

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What's this topic about?

Item	Outcomes	Assessment Activity
1	Identifying research questions	Research proposal Class participation
2	Designing an experiment to answer research question	Research proposal Class participation Oral presentation
3	Analysing and interpreting the data	Class participation Research report
4	Communicating the results both orally and in writing	Oral presentation Research report
5	Giving and receiving feedback	Research proposal Class participation Oral presentation

# Assessment summary table

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What's this  
topic about?

Item	Component	Weighting	Deadline
1	Class participation	10%	Throughout semester
2	Research proposal (Group assessment)	15%	11.45pm, Monday 27th August (week 5)
3	Ethics application (Group assessment)	5%	11.45pm, Monday 27th August (week 5)
4	Oral presentation (Group assessment)	10%	15th–19th October (week 11)
5	Research report (Individual assessment)	60%	11.45pm, Thursday 25th October (week 13)

# Assessment 1: Class participation

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What's this  
topic about?

- Your seminar presentation will contribute 5 of the 10 marks for class participation
- The remaining 5 marks will be awarded based upon the extent to which you participate in the seminar discussions
- Don't be shy—be prepared to ask questions and share your thoughts and opinions with the group

# Assessment 2: Research proposal

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What's this  
topic about?

- You will be required to submit a proposal delineating the research you plan to conduct
- The proposal should provide a brief outline of the proposed research (1,200 words max)
- The proposal should be a joint product of the research group to which you are affiliated (i.e., one project submitted per group)
- Matt will outline the details of what is required for the group research proposal in your week 2 tutorial

# Assessment 3: Ethics application

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What's this topic about?

- An ethics application to conduct your research project must also be prepared and submitted
- Like the research proposal, the ethics application should be the joint product of your research group
- Matt will cover the details of what is required for the group ethics application in your week 2 tutorial

# Assessment 4: Research report

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General advice

What's this topic about?

- The unit will culminate with the submission of a research report communicating the findings of your research project
- The research report should be written according to the format outlined in the 6th Edition of the Publication Manual of the American Psychological Association (American Psychological Association, 2009)
- The report must not exceed 2,500 words in length (excluding abstract, figures, tables, and reference list)
- Matt will offer some general tips and advice on writing psychology papers in your week 4 tutorial

# Assessment 5: Oral presentation

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General advice

What's this topic about?

- You will have the opportunity to present your research findings—as a group—to the PSYC3302 students
- Details on this to follow closer to the time...



# General advice

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General advice

What's this topic about?

- The main component of this unit is the research project
- This makes it different to most other units you have undertaken
- You will need to use your own initiative more so than in other units. For example, you will have to:
  - find journal articles relevant to your research and make sense of the literature
  - present ideas on topics you have not encountered before
  - perform statistical tests you may be unfamiliar with
- In short, you will need to be more motivated and self-reliant in this unit than in other units

# Don't panic!!

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General advice

What's this topic about?

- If all of this sounds daunting, don't worry!
- Matt and I are here to answer your questions and to give you help and advice
- Just be organised and don't leave things until the last minute
- Finally, enjoy the unit! 😊



# What is behavioural economics?

## Behavioural Economics

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General advice

What's this topic about?

- Economics and psychology are more closely related than you might think—both disciplines are interested in understanding human decision making
- Adam Smith, a famous economist, published a book in 1759—*The Theory of Moral Sentiments*—that drew upon many insights from psychology, appealing to emotions, impulses, and morals etc.
- From the time of Smith up until the nineteenth century, economics and psychology went hand-in-glove—economists regularly drew upon the work of psychologists to inform their theories
- The relationship came to an end when economists wanted to incorporate more mathematical rigour into their theories, something that was seen to be at odds with psychology

# What is behavioural economics?

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What's this topic about?

- Economics shifted to a focus on “predicting” choice rather than “explaining” choice
- Allowed economists to develop a mathematical theory of rational choice that remains to this day the standard economic model
- This theory assumes that humans are approximated by a *homo economicus* who is rational, calculating, selfish, and computationally proficient
- This is a view fundamentally different from that which was developing in psychology and as a result economics and psychology drifted further apart

# What is behavioural economics?

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General advice

What's this topic about?

- From the 1960s onwards, psychology made a return to economics
- Daniel Kahneman and Amos Tversky, two psychologists, began to explore the shortcomings of the standard economic model



- They initiated a program of work that explored whether people really are rational, as the standard model predicts
- This work entailed highlighting how, in making decisions, people are susceptible to framing effects, mental heuristics, and cognitive biases

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What's this topic about?

- The work of Kahneman and Tversky—and other psychologists—has shown that the basic assumptions of the standard model are fundamentally flawed:
  - people are not rational—our decisions are influenced by the way information is conveyed
  - people are not selfish—we are capable of remarkable acts of altruism
  - people are not computationally proficient—we don't obey the rules of logic and probability theory
- Any adequate theory of human decision, thus needs to be constrained by these psychological insights

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What's this topic about?

- The magnitude of this contribution should not be underestimated—Daniel Kahneman won the Nobel Prize in Economics in 2002 for his work with Tversky (the only psychologist to have won a Nobel prize!)
- Amos Tversky sadly passed away in 1996, but would also have been a recipient of the prize
- Their research is arguably the most influential in contemporary cognitive psychology
- They are widely considered to be the founders of behavioural economics and we will be learning much more about their work

# What is behavioural economics?

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General advice

What's this topic about?

## So what is behavioural economics?

*Behavioural economics is about testing the standard economic model on humans, seeing when it works and when it fails, and asking whether it can be augmented, or given an overhaul, to better fit what we observe. It is about applying insights from psychology in economics. It is also about understanding whether people make good or bad decisions and whether they could be helped to make better ones.*



# Some Key Findings and Concepts

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What's this topic about?

- Framing effects
- Cognitive biases
- Decision heuristics

# Some Key Findings and Concepts

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What's this topic about?

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# Framing Effects

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What's this  
topic about?

- People's decisions are influenced by the way a decision problem is framed e.g.,
- **Attribute framing**
  - type of framing where an attribute of an object is varied
  - e.g., beef described as “75% lean” is rated more favourably than beef described as “25%” fat (Levin et al., 1998)
- **Goal framing**
  - framing an issue to focus its potential to “provide a gain” (positive frame) or “avoid a loss” (negative frame)
  - e.g., woman more likely to engage in breast self-examination (BSE) when given info about negative consequences of not engaging in BSE than when given info about positive consequences of engaging in BSE (Meyerowitz & Chaiken, 1987)

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# Cognitive Biases

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What's this  
topic about?

- A predisposition to think and reason in a particular way
- Behavioural economists have identified a (very) long list of such biases—here are a few:
- **Loss aversion**
  - the psychological pain associated with a loss is greater than the psychological pleasure of an equivalent sized gain (Kahneman & Tversky, 1979)
  - gives rise to the “endowment effect” and “status-quo bias” (Kahneman et al., 1991)
- **Sunk cost (Concorde) fallacy**
  - continuing to pursue a course of action because significant time, effort, or money has been invested
  - e.g., French and British governments continued to fund the Concorde sonic jet long after it became clear it was not commercially viable

# Some Key Findings and Concepts

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# Decision Heuristics

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- Heuristics represent mental short-cuts that are used for making judgements and decisions
- **Anchoring and adjustment**
  - numerical estimates (e.g., what is the percentage of African Nations in the UN) are systematically influenced by a standard or anchor (Tversky & Kahneman, 1974)
  - e.g., minimum credit card repayments (Stewart, 2009)
- **Availability heuristic**
  - we judge the probability of some event occurring by the ease with which the event comes to mind (Tversky & Kahneman, 1974)
  - explains why fears of airplane crashes, terrorist attacks, and child kidnappings increase immediately after such events occur

# What You Will Learn

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What's this topic about?

- Something about economics
- Lots about behavioural economics!
- But critically:
  - limitations of human judgement and decision making and how to overcome them
  - how to influence other people using behavioural economic levers
  - how to resist those levers when they are used to try to influence you!
- We should all emerge as better decision makers by the end of the topic 😊

# Next week

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What's this topic about?

- Seminar 2:
  - introduction to behavioural economics—see suggested readings and questions on Blackboard
  - I will discuss details of the nature and purpose of the research project after our seminar discussion
- Your first lab with Matt:
  - how to write a research proposal
  - how to construct an ethics application
- Before then:
  - submit preferences for what topic you want to present on (see earlier)
  - you will be sorted at random into 2–3 groups for the group-based assessment activities (viz. research proposal, ethics application, oral presentation)

# Behavioural Economics For The Masses

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What's this topic about?

