DECISION MAKING
(Economics 106)
Prof. Klaus Nehring
Fall 2006

Syllabus

Office: 1110 SSHB, 752-3379.
Office Hours: T 2:30-4:00 (mainly for you), W 3:30-5:00 (mainly for my graduate students).


Prerequisites: Statistics 13, Econ 100.

Required Reading:


- Readings of selected articles and chapters from books
  - will be available on my web page.
Course Requirements and Organization:

• There will be regular, weekly homework assignments. Regular work on the homework is absolutely necessary to succeed in the class. To further encourage it, I will include in each exam at least one problem from a prior homework.

• You will get significant help with getting started on the homework in discussion section. The TA is Weijun (“Larry”) Hu.

• While the textbook material is fairly small, there will be a sizeable amount of additional required reading on decision-making experiments and real-world applications.

Exam Dates:

• Quiz 10/25 (tentative)

• Midterm 11/8

• Final 12/12

Grading:

Homework 12% + Quiz 8% + Midterm 25% + Final 40% + Higher of Midterm and Final 15%

– I may well adjust the grade one step up for regular, intelligent participation.
COURSE OUTLINE AND READINGS

• *-ed readings to be read especially thoroughly (like a textbook)

• dates are indicative.

1. INTRODUCTION (WEEK 1)


2. THE BASICS OF PROBABILITY (WEEKS 1 AND 2)


Revising Beliefs with New Information: Bayes’ Rule


3. VISUALIZING LINKED DECISIONS: DECISION TREES (WEEK 3)

• RAIFFA, ch. 1 & 2*

4. HEURISTICS AND BIASES (WEEK 4 AND 5)

Heuristics and Biases: Representativeness, Availability and Anchoring


Overconfidence


Optimism

6. REAL UNCERTAINTY (WEEKS 5 AND 6)

Assessing Chances: Subjective Probability

• RAIFFA, ch.5, 104-114.*


Information Markets


Application: Uncertainty about Climate Change

• Intergovernmental Panel on Climate Change, Working Group I (2001): “Scientific Evidence: Summary for Policy Makers”*


7. DECISION MAKING UNDER RISK (WEEKS 7 AND 8)

The Economic Approach: Expected Utility Theory

• RAIFFA, ch. 4*

The Psychological Approach: Prospect Theory

8. COST-BENEFIT ANALYSIS (WEEK 9)


9. APPLICATION: ACTING ON CLIMATE CHANGE (WEEK 10)

