
Decision Making

MBA257, Spring B 2017



Instructor:

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Graduate student instructor:

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Class meetings (in Cheit 135):

Tuesdays and Thursdays
2-4 p.m. and 4-6 p.m.

Office hours: by appointment

Course web site:

<https://bcourses.berkeley.edu/>

Course objectives

This course has two objectives: The first is to improve the quality of your decisions. You will learn to be aware of and to avoid common inferential errors and systematic biases in your own decision making. While intuition often serves us well, there are many decision traps that we tend to fall into on a repeated basis. These traps relate to how we think about risk and probability, how we learn from experience, and how we make choices. This course will teach you about the traps. It's true that each decision is unique and poses its own special problems. At the same time, there are many commonalities across decisions. Understanding a few basic principles can take you a long way. By the end of the course, you will have internalized the basic principles and will be able to avoid falling into the traps. Knowing what can go wrong and knowing the right questions to ask will help you think smarter.

The second course objective is to improve your ability to predict and influence the behavior of others. Even if you are completely rational yourself and require no tutoring whatsoever (there are always a few people who think this of themselves), you will still find this course useful. Managers, consumers, investors, and negotiators all make predictable mistakes. Therefore, understanding the psychology of decision making can give you an advantage.

Assignments and grading

Your final grade will be composed of four things:

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|------------------------------|-----|
| 1) Completion of assignments | 25% |
| 2) Points earned | 25% |
| 3) Daily quizzes | 25% |
| 4) Final exam | 25% |

Completion of class exercises (25%). There will be many exercises and homework assignments throughout the course that will require you to complete some assignment outside of class. Because they will help you get more out of the class, I want to give you a strong incentive to complete all these assignments, and I will penalize you if you fail to complete them. (Note: It is easy to achieve perfect performance on this aspect of class simply by completing these assignments on time.)

Points Earned (25%). Performance in various exercises during the class can earn you points.

Daily Quizzes (25%). Every class, there will be a 60% chance of having to take a short quiz that tests your knowledge of the readings assigned that day or the lessons of recent classes. These quizzes are designed to ensure that you are current on completing class assignments. Thus, so long as you keep up, do the reading, and retain the most important information, you should not have to study for these quizzes. Some of the quizzes will require you to summarize one (or more) of the readings, but other quiz formats (e.g., multiple choice; short answer) are possible. Each quiz will be graded on a scale ranging from 0 to 2. You will receive a score of zero if you are absent or late for a quiz. Your lowest quiz score will be dropped.

Final Exam (25%). The final exam will assess how well you have learned the material by asking you to apply concepts, think critically, and analyze cases. Exam questions will cover material from readings, lectures, videos, cases, and class discussion. The exam will be open-book and open notes, and will be taken on computer. It will consist primarily of multiple-choice questions.

Consideration for Classmates

I propose the following simple course code of conduct:

1. Attend class on time. It enhances the value of the class not only for you but for everyone when you are present and you participate. If you have an unavoidable conflict, please do not disturb your classmates by arriving late, leaving early, or asking to have information you missed repeated during the class.
2. Electronic gadgets, including phones, shall not be used in class. Their benefits are outweighed by the distracting nuisance they represent for both you your classmates. Computers shall only be used in particular class sessions and only for class purposes.
3. If you are familiar with a case or an exercise introduced in class, please do not discuss your prior knowledge with other students as this can ruin the learning experience for them. If you are concerned that your prior experience with a case might be an issue, please let me know before class.

Grading Policies

1. All assignments must be submitted by the beginning of class on the date they are due.
2. To appeal a grade, submit a typewritten request explaining your position (along with the original assignment) within 7 days of receiving your grade. Document your points with the appropriate course material. After reviewing your explanation I may schedule a meeting with you to discuss the disputed issue(s). I reserve the right to re-grade the entire assignment when an appeal is submitted. This can result in a lower grade.
3. Cheating in any form will be met with the fullest sanctions permitted by the University.

Course readings

The course's textbook will be: Bazerman, M. H., & Moore, D. A. (2013). *Judgment in managerial decision making* (8th edition), referred to in the syllabus as B&M.

Other assigned readings will be available through Study.net.

Brief Course Outline

Date	Topic	Readings/Cases/Assignments	Assignments due
3/14	Common sense	Introduction (B&M Ch 1) The myth of common sense (Watts)	Pre-class survey Market entry game
3/16	Overconfidence	Overconfidence (B&M Ch2) Delusions of success (Lovallo & Kahneman)	Movie forecasting 1
3/21	Evidence-based decisions	Bounded awareness (B&M Ch 4) Misunderstanding company perf. (Rosenzweig)	Framing survey
3/23	Finding patterns	Something out of nothing (Gilovich) Why the biggest winners are lucky (Frank) Stochasticity (Radiolab)	Movie forecasting 2 Salary guessing
3/28-3/30	Spring break	<i>Good times</i>	
4/4	Framing	Framing (B&M Ch 5)	Incentives to perform
4/6	Big data, data mining, and confirmation bias	Confirmation bias (McRaney) I know you are and so am I (Tang) The deadly data science sin (Walker)	Movie forecasting 3 Stock market game
4/11	Intuitive vs. statistical prediction	Are you smarter than a television pundit? (Silver) The future of decision making (McAfee) Noise (Kahneman)	
4/13	Building a linear model	Building an Algorithmic Model of Employees' Brains Install R and Rstudio <i>Bring your laptop to class</i>	Movie forecasting 4 Intertemporal choice
4/18	Emotions	Motivational and emotional influences (B&M Ch6) Dr. Drug Rep (Carlat)	What do you know about your classmates?
4/20	Escalation	Escalation of commitment (B&M Ch 7)	Movie forecasting 5 Fairness survey
4/25	Morality and fairness	Fairness and ethics (B&M Ch 8) Why good accountants... (Bazerman et al.)	
4/27	Forecasting	For years you have been telling us... (Silver) A better way to forecast (Haran & Moore) Superforecasting (Schoemaker & Tetlock)	Movie forecasting 6
5/2	Nudging toward better decisions	Nudge (Thaler & Sunstein) Nudge...a lot (Bock)	
5/4	Course finale	Improving decision making (B&M Ch 12)	Propose exam question
5/10	Final exam	8:30-11:30 a.m.	

Detailed Course Outline

Class	Topic	Readings/Cases/Assignments
1	Common sense and common decision errors	Introduction (B&M Ch 1) The myth of common sense (Watts)
	Readings	Bazerman & Moore, Chapter 1 Watts, D. J. (2011). Chapter 1 ("The myth of common sense") from <i>Everything Is Obvious: Once You Know the Answer</i> . New York: Crown Business.
2	Overconfidence	Overconfidence (B&M Ch2) Delusions of success (Lovallo & Kahneman)
	Readings	Bazerman & Moore, Chapter 2 Lovallo, D., & Kahneman, D. (2003). Delusions of success: How optimism undermines executives' decisions. <i>Harvard Business Review</i> , 81(7), 56.
3	Evidence-based decisions	Bounded awareness (B&M Ch 4) Misunderstanding company performance (Rosenzweig)
	Reading	Bazerman & Moore, Chapter 4 Rosenzweig, P. (2007). Misunderstanding the nature of company performance: The halo effect and other business delusions. <i>California Management Review</i> , 49(4).
4	Finding patterns	Something out of nothing (Gilovich) The cancer cluster myth (Gawande) Stochasticity (Radiolab)
	Readings	Gilovich, T. (1991). Chapter 2 ("Something out of nothing: The misperception and misinterpretation of random data") from <i>How we know what isn't so: The fallibility of human reason in everyday life</i> . New York: Free Press. Frank, R. (2016). Chapter 4 ("Why the biggest winners are almost always lucky") from <i>Success and luck: Good fortune and the myth of meritocracy</i> . Princeton University Press. Radiolab season 6, episode 1: Stochasticity http://www.radiolab.org/story/91684-stochasticity/
	If you want to learn more	http://thehothand.blogspot.com/
5	Framing	Framing and the reversal of preference (B&M Ch 5)
	Readings	Bazerman & Moore, Chapter 5
6	Big data, data mining, and confirmation biases	Confirmation bias (McRaney) I know you are and so am I (Tang) The deadly data science sin of confirmation bias (Walker)
	Readings	McRaney, D. (2011). Confirmation bias. from <i>You are not so smart</i> . New York: Penguin. Tang, M. (2016). I know you are and so am I: The dangers of confirmation bias. <i>The Huffington Post</i> . http://www.huffingtonpost.com/michelle-tang/i-know-you-are-and-so-am-b-12375786.html Walker, M. (2014). The deadly data science sin of confirmation bias. http://www.datasciencecentral.com/profiles/blogs/the-deadly-data-science-sin-of-confirmation-bias
7	Intuitive vs. statistical prediction	Are you smarter than a television pundit? (Silver) The future of decision making (McAfee) Noise: The high, hidden cost of inconsistent decisions (Kahneman)

	Readings Silver, N. (2012). Chapter 2 (“Are you smarter than a television pundit?”) from <i>The signal and the noise</i> . Penguin Press. McAfee, A. (2010). The future of decision making: Less intuition, more evidence. <i>HBR Blog</i> . From http://blogs.hbr.org/2010/01/the-future-of-decision-making/ Kahneman, D., Rosenfield, A. M., Gandhi, L., & Blaser, T. (2016). Noise: How to overcome the high, hidden cost of inconsistent decision making. <i>Harvard business review</i> , 94(10), 38–46.
8	Building a linear model Building an Algorithmic Model From Employees’ Brains Install R and Rstudio – Instructions on course web site Bring your laptop to class
	Readings Copeland, R. & Hope, B. (2016, December 22). The World’s Largest Hedge Fund Is Building an Algorithmic Model From its Employees’ Brains. <i>The Wall Street Journal</i> . More about how regressions work: http://www.dangoldstein.com/regression.html
9	Emotional influences Motivational and emotional influences (B&M Ch6) Dr. Drug Rep (Carlat)
	Readings Bazerman & Moore, Chapter 6 Carlat, D. (2007, November 25). Dr. Drug rep. <i>The New York Times</i> .
10	Escalation Escalation of commitment (B&M Ch 7)
	Readings Bazerman & Moore, Chapter 7
11	Morality and fairness Fairness and ethics (B&M Ch 8) When good accountants do bad audits (Bazerman et al.)
	Readings Bazerman & Moore, Chapter 8 Bazerman, M. H., Loewenstein, G., & Moore, D. A. (2002). Why good accountants do bad audits. <i>Harvard Business Review</i> , 80(1), 87–102. If you want to know more Greene, J. (2013). <i>Moral Tribes</i> . New York: Penguin.
12	Forecasting For years you have been telling us that rain is green (Silver) A better way to forecast (Haran & Moore) Superforecasting (Schoemaker & Tetlock)
	Readings Haran, U., & Moore, D. A. (2014). A better way to forecast. <i>California Management Review</i> , 57. Silver, N. (2012). Chapter 4 from <i>The signal and the noise</i> . Penguin Press. Schoemaker, P. J. H., & Tetlock, P. E. (2016, May). Superforecasting: How to upgrade your company’s judgment. <i>Harvard Business Review</i> .
13	Nudging people toward better decisions Nudge, p1-14 (Thaler & Sunstein) Nudge...a lot (Bock)
	Readings Thaler, R. H., & Sunstein, C. R. (2008). Pages 1-14 from <i>Nudge: Improving decisions about health, wealth, and happiness</i> . Yale University Press. Bock, L. (2015). Chapter 12 from <i>Work rules!</i> New York: Hachette.

14	Course finale	Improving decision making (B&M Ch 12) The checklist (Gawande)
	Readings	Bazerman & Moore, Chapter 12
	Final exam	May 10th, 8:30-11:30 a.m.