

## COURSE DESCRIPTION

<b>Course name:</b>	<b>Economic Psychology</b>	<b>Course code:</b>	
<b>Course type:</b>			
<b>Classes</b>	2	<b>Creditpoints:</b>	5
<b>Semester:</b>	I.	<b>Training type</b>	full time
<b>Training programme</b>	The course aims to develop a student's understanding of the basic principles of economic psychology. The course has a quantitative slant, and is designed to give a theoretical introduction to economic psychology.		
<b>Pre-requirements:</b>	-		
<b>Course leader:</b>	Dr. Laki Balázs		
<b>Lecturer:</b>	Dr. Laki Balázs		
<b>Department</b>	Institute of Engineering		
<b>Objectives:</b>	<ul style="list-style-type: none"> <li>• Acquiring a structured insight into the important roles of psychological factors and processes in the judgments, decision-making and well-being of economic agents</li> <li>• Learning about the difference in approach between psychology and economics</li> <li>• Learning about the relations between psychology and economics</li> </ul>		
<b>Short description:</b>	<p>Increasingly, economists are discovering psychology as a means to enrich their models of economic behaviour and well-being and to give them a better foundation. The importance of this is illustrated by the fact that the Nobel Prize winner in economics in 2002 was the distinguished psychologist Daniel Kahneman. He characterizes his research as a quest for the 'logic of the irrational'. Adam Smith already recognized that economic, just like other, behaviour is motivated by an intriguing blend of 'rational' considerations and 'irrational' sentiments. The great challenge is to investigate the implications of the latter motives for economics.</p> <p>This course aims to give an intensive introduction into this field. In the first nine sessions of the course the psychology and behavioural economics of judgment and decision-making are dealt with. Basic principles of rationality are compared with actual behaviour in making decisions. Next, students are introduced into the psychological and economic research on subjective well-being (happiness) and its socio-economic determinants (especially income). The importance of this research for economics and its policy implications will be highlighted. Students should realize that the course is not easy and that its material also includes some mathematical derivations.</p>		
<b>Competencies:</b>	<ul style="list-style-type: none"> <li>• Students will be able to understand and analyse the process of the decision making the main theoretical and practical approaches in the field of Behavioural Economics</li> <li>• Students will be able to analyse individuals' economic behaviour, recognize inconsistencies and manipulation</li> <li>• Make judgments about what assumptions to make when building or evaluating a model</li> </ul>		

<b>Course topics:</b>	<p>Week 1 Approaches and themes of economic psychology. Decision making: concept and structure , the question of rationality</p> <p>Week 2 The limits of knowing the world. (Mis)judging probabilities, heuristics</p> <p>Week 3 The inconsistencies of preferences, prospect theory, the relativity of evaluation</p> <p>Week 4 The inconsistencies of preferences: is the more better? Counterfactual thinking</p> <p>Week 5 Consumer decision making. Choice between alternatives</p> <p>Week 6 Consumer motivation. The psychology of possession. The role of time in decision making Self-control,</p> <p>Week 7 The role of values and emotions in decision making. Intuitive or analytic thinking.</p> <p>Week 8 The critic of the heuristic approach. Naturalistic decision-making.</p> <p>Week 9 The effect of social norms on decisions. Ethical and moral consideration. Tax paying and tax avoiding</p> <p>Week 10 The importance of fairness, the role of trust in economic life</p> <p>Week 11 Risk perception, risk taking and risk communication</p>
<b>Teaching methods:</b>	Interactive lectures and seminars
<b>Course requirements, and evaluation</b>	<p>Grading system -- 100 points total</p> <ul style="list-style-type: none"> <li>*mid-term exam (40 points)</li> <li>*final project (30 points for in-class presentation and 20 points for written report)</li> <li>*class participation (10 points)</li> </ul> <p>For the term paper (2,500-3,000 words), (1) Students will work on final project individually. (2) Students will submit a proposal on their dataset and analysis plan by the fourth class period. (3) Students will analyse their own dataset. (4) Students will present their final projects in class and write a comprehensive report of the data analysis.</p>
<b>Compulsory literature:</b>	Class readers.

<b>Recommended literature:</b>	Hastie, Reid and Robyn M. Dawes. Rational choice in an uncertain world: The psychology of judgment and decision making. Sage, 2010. Kahnemann D. (2011) Thinking fast and slow Thaler R. Sustein (2008)Nudge Ariely D. (2008) Predictably Irrational
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