



Course program and reading list

Semester 1 Year 2023

School: Adelson School of Entrepreneurship B.A

Decision Making for Entrepreneurs

Lecturer:

Dr. Liraz Margalit lmargalit@runi.ac.il

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Teaching Assistant:

Mr. Iliya Liampert iliya.liampert@post.runi.ac.il

Course No.:	Course Type :	Weekly Hours :	Credit:
3415	Lecture	3	3

Course Requirements :	Group Code :	Language:
Final Paper	231341500	English

Course Description

Effective and efficient decision-making is at the core of any entrepreneur's success, a large percent of their decisions are made in an uncertain and high-risk environment which makes their decisions prone to mistakes and biases. Although we like to think of ourselves as rational creatures, 80% of our day-to-day decisions are made with little or no conscious thought.

In this course we will discuss behavioral economics concepts and the psychological approach to decision making, and how can we use these concepts to our advantage and create better outcomes for our business.

Now more than ever, it's critical for organizations? to understand the science underlying human behavior and how to apply it. Behavioral design is crucial in a competitive and

crowded space, for both users and company success. We will learn different biases and discuss how to use behavioral science in ways that maximize the benefit for both the user and the business.



Course Goals

- Learn what drives decision making offline and online
 - Learn different biases in human behavior
 - Provide deep understanding of the psychology behind user behavior
 - Learn the differences between Customer Experience, User Experience & Personalization.
 - Learn how to build products to cater to core human needs.
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Grading

Grading

1. **Final paper in groups of 3 students: 80%**
2. **Group presentation: 20%**
3. **5 bonus points for group work throughout the semester**

Assignments and Requirements:

- Full Attendance – Class will take place in the following format:
- Lecture on a weekly topic
- Work in groups (groups will be determined at the beginning of the semester and remain the same throughout the semester).
- Group presentation – Each week a different group will present

Attendance:

- 10 Classes out of 13 in the semester = full attendance
- Missing up to 3 additional classes is possible, but will result in deducting 5 points from the final grade of the course for each lesson the student misses.
- That is, a student who attends only 9 lessons - 5 points will be deducted from the course grade, only 8 lessons - 10 points will be deducted from the course grade, only 7 lessons - 15 points will be deducted from the course grade.
- A student who attends only 6 classes or less - will not pass the course, will receive a failing grade, and will have to repeat the course the following year.
- All of the above is not valid if it is a justified absence approved by the director of students according to the regulations (illness, reserve, etc.)

Active Class Participation:

You are expected to come to class well prepared and to participate in class discussions.

Teamwork is an essential component of this class. Be respectful of your team members and be an active member of the team.

Do not be late for class!



Lecturer Office Hours

Appointment by email



Teaching Assistant

Mr. Iliya Liampert

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Additional Notes

Week	Lecturer	Topics
1	Liraz Margalit	Orientation +Introduction to behavioral economics
2	Eli Mograbi	Experimental design
3	Eli Mograbi	Mental Accounting
4	Eli Mograbi	Prospect theory
5	Eli Mograbi	Social preferences
6	Eli Mograbi	Nudges
7	Eli Mograbi	Incentives
8	Eli Mograbi	Behavioral game theory
9	Liraz Margalit	Customer experience & User experience

10	Guest lecture	Industry representative
11	Guest lecture	Industry representative
12	Liraz Margalit	How to design habit forming products
13		Summary



Reading List

1. **Introduction to behavioral economics**

Topics: Introduction; Orientation; getting to know your classmates. The role of emotions in our decisions

Consumer behaviors are heavily influenced by a person's impulses, emotions and moods. Unlike repeatable rational decisions, brands will inevitably have difficulty tracking and predicting future behaviors as it can vary drastically from day to day, with a good or bad mood directly impacting how they perceive their interactions with a brand. What was considered a positive customer experience one day might be perceived as negative the next.

Readings:

- <https://www.entrepreneur.com/article/238984>
- <https://www.entrepreneur.com/article/235944>
- <https://www.cmswire.com/customer-experience/do-we-control-our-own-purchasing-habits/>
- <https://www.cmswire.com/customer-experience/to-create-experiences-customers-wont-forget-appeal-to-their-senses/>

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Experimental design -

In order to be able to test theories, ideas and interventions we will need to use scientific tools. In this section we will understand the difference between correlation and causation, learn the basic terms when doing research, and speak about different types of experiments (lab, field, online).

Camerer, C. F., Dreber, A., Forsell, E., Ho, T. H., Huber, J., Johannesson, M., Kirchler, M., Almenberg, J., Altmejd, A., Chan, T., Heikensten, E., Holzmeister, F., Imai, T., Isaksson, S., Nave, G., Pfeiffer, T., Razen, M., & Wu, H. (2016). Evaluating replicability of laboratory experiments in economics. *Science*, 351(6280), 1433–1436. <https://doi.org/10.1126/science.aaf0918>

Mental accounting –

People think of values in relative rather than absolute terms. This section will answer questions like: Why are people willing to spend more when they pay with a credit card than cash?

Unlike the rational theory that assumes fungibility of money, individuals treat money differently. Their treatment depends on various factors such as the origin of the money, and its intended use.

Kahneman, D., & Tversky, A. (1984). Choices, values, and frames. *American Psychologist*, 39(4), 341–350. <https://doi.org/10.1037/0003-066x.39.4.341>

Thaler, R. H. (1999). Mental accounting matters. *Journal of Behavioral Decision Making*, 12(3), 183–206.

Prospect theory -

Prospect theory shows how individuals decide between alternatives that involve risk and uncertainty, and was developed by Nobel prize winners Kahneman and Tversky (1979). According to Prospect theory people think in terms of utility relative to a reference point rather than absolute outcomes. We will discuss Prospect theory in mirror of Expected utility theory with emphasis on how individuals experience results, and how do we account for probabilities of different events.

Kahneman, D., & Tversky, A. (1979). Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, 47(2), 263. <https://doi.org/10.2307/1914185>

Social preferences –

Social preferences describe how much and in what way an individual cares about others. While the classic model assumes that individuals are selfish and care only about their own results, in real life the results are different. We will show cases where individuals care about the results, actions, and beliefs of other players playing against them.

Charness, G., & Rabin, M. (2002). Understanding Social Preferences with Simple Tests. *The Quarterly Journal of Economics*, 117(3), 817–869. <https://doi.org/10.1162/003355302760193904>

Nudges -

Thaler and Sunstein (2008) defined a nudge as: "any aspect of the choice architecture that alters people's behavior in a predictable way without forbidding any options or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid."

Nudges are currently used by different choice architectures with changes that may influence behavior of individuals at the lab and especially at the field. In this class we will show various biases that can be used as nudges. One of the main advantages of nudges is that on a cost adjusted basis they are very effective.

Arad, A., & Rubinstein, A. (2018). The People's Perspective on Libertarian-Paternalistic Policies. *The Journal of Law and Economics*, 61(2), 311–333. <https://doi.org/10.1086/698608>

Thaler, R. H., & Sunstein, C. R. (2003). Libertarian Paternalism. *American Economic Review*, 93(2), 175–179. <https://doi.org/10.1257/000282803321947001>

Incentives –

According to the classic economic model, monetary incentives increase level of effort and as a result increase productivity. While this is usually the case, we will discuss several situations where financial incentives may backfire. We will discuss key concepts when thinking and deciding about monetary incentives.

Gneezy, U., & Rustichini, A. (2000). Pay Enough or Don't Pay at All*. *Quarterly Journal of Economics*, 115(3), 791–810. <https://doi.org/10.1162/003355300554917>

Heyman, J., & Ariely, D. (2004). Effort for Payment: A Tale of Two Markets. *Psychological Science*, 15(11), 787–793. <https://doi.org/10.1111/j.0956-7976.2004.00757.x>

Behavioral game theory

Behavioral game theory aims to describe actual behavior, is driven by empirical observation (primarily experiments), and charts a middle course between over-rational equilibrium analysis and under-rational adaptive analysis

Ayala Arad, Ariel Rubinstein (2012). The 11-20 Money Request Game: A Level-k Reasoning Study, *The American Economic Review*, 102:7: 3561-3573.

Camerer, Colin, F. (1997). Progress in Behavioral Game Theory. *Journal of Economic*

Customer Experience, User Experience & Personalization

The game has changed. Your next customer will research and evaluate your products through web sites and online networks long before your salespeople get involved. In fact, a call to your salesperson may be the last step in the buyer's journey, significantly limiting the influence and expertise that has long driven the buying discussion. As the buying process moves online, salespeople are getting less face time with clients, and thus lack insight into which of their prospects are showing the strongest buying signals.

To succeed in this new digital climate, smart businesses are adapting and realizing the necessity of reading and responding to the "digital body language" of their prospects.

Readings:

Margalit, L. (2019). the psychology of customer experience. In G. Einav (Ed.), *Digitized: Industry Transformation and Disruption through Entrepreneurship and Innovation* (pp. 87-100). Emerald.

- <https://www.cmswire.com/digital-experience/to-understand-your-customer-data-try-thinking-like-a-psychologist/>
- <https://www.cmswire.com/customer-experience/everything-you-thought-you-knew-about-user-experience-is-wrong/>
- <https://www.cmswire.com/digital-experience/reading-the-digital-cues-actions-speak-louder-than-words/>
- <https://www.cmswire.com/customer-experience/tap-your-customers-emotions-through-the-power-of-positive-memories/>

How to design habit forming products?

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Your brain loves routine. Routine allows you to follow the same route to work every day while your brain does other things, like thinking about your work presentation. Routine frees up your brain's resources for more complicated actions. This is why our brains reward us for routine and encourage us to create more routines. For example, after we turn on the light switch several times, and the light turns on, our brain learns that this is

what it should expect. The next time we flip the switch, we are rewarded with a small burst of [dopamine](#). After several similar repetitions, a new association is created, and this behavioral pattern is etched into our [neural](#) pathways – a new habit is formed. This is how consumers develop habits. As we already know, habits, rather than conscious [decision-making](#), shape about 45 percent of our everyday choices.

Readings:

<https://www.psychologytoday.com/intl/blog/behind-online-behavior/201712/how-create-addictive-experiences>

- What the Marshmallow Test Really Teaches About Self-Control - <http://www.theatlantic.com/health/archive/2014/09/what-the-marshmallow-test-really-teaches-about-self-control/380673/>

Recommended Ted Talks

- How great leaders inspire action - https://www.ted.com/talks/simon_sinek_how_great_leaders_inspire_action?referrer=playlist-the_most_popular_talks_of_all
- Do schools kill creativity? - https://www.ted.com/talks/ken_robinson_says_schools_kill_creativity?referrer=playlist-the_most_popular_talks_of_all
- How Emotions shape digital experiences? - <https://www.youtube.com/watch?v=FX-EtHIRYZY>
- Experience means everything - <https://www.youtube.com/watch?v=cjVDb-bXATs&t=219s>