

Northwestern University
Kellogg Graduate School of Management
Individual and Competitive Decision Making –

D71 Tuesdays, 3:00 - 6:00 or 7:00 - 9:45, 1st mini - Winter, 1997

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Course Description

The purpose of this course is to understand and improve how we make decisions in the face of uncertainty. A basic premise of the course is that a manager needs analytical skills to discover optimal solutions to problems. However, the intuition that lies at the core of these decisions may be faulty.

A large body of research has uncovered systematic mistakes that individuals make when approaching uncertainty that often undermine what appear to be rational decision making processes. By introducing students to these findings through readings and in-class exercises, this course will allow participants the opportunity to improve their decision making skills.

The focus of the course falls into two categories. First, we will study how individuals process uncertainty and make decisions in isolation based upon general information taken from the surrounding environment. Second, we will study the dimension of social uncertainty - namely, how individuals process uncertainty and make decisions in competitive situations, in which their outcomes are interdependent with the choices of others, but in which no face-to-face communication is possible. While the domain of this course overlaps with economic studies of decision analysis and game theory, our focus will be on the psychological aspects of how individuals cope with uncertainty rather than on analyzing and modeling the structural aspects of decision situations.

Course Requirements

1. Participation (20% of your grade). Students are expected to participate in all decision exercises according to the schedule presented in class (this includes all decision packets) and to be actively involved in class discussions.

Class participation is a very important part of the learning process in this course and is also part of what will make the course interesting for you and your fellow students. You will be evaluated on the QUALITY of your contributions and insights. Quality comments possess one or more of the following properties:

- offer a different and unique, but relevant, perspective - contribute to moving the discussion and analysis forward - build on other students' comments - transcend the "I feel" syndrome. (That is, they include some evidence, argumentation, or recognition of inherent tradeoffs and demonstrate some reflective thinking.)

While your participation grade is subjective, it will not be random or arbitrary. And, clearly, more frequent quality comments are better than less frequent quality comments.

2. Final Paper (80% of your grade). You are required to write either the self-analysis paper or the media application paper. These two options are described below:

Self Analysis Paper (80% of your grade). Submit an 8-10 page (double-spaced, 1 inch margins) self analysis paper which assesses the quality of your decision making processes. This paper should draw upon topics covered in the first five weeks of the course by offering personal examples of how you have been susceptible to decision biases in the past and how you plan to try and overcome them in the future. The paper should include meaningful personal anecdotes accompanied by an analytical discussion of the key concepts that they represent.

Media Application Paper (80% of your grade). Submit an 8-10 page (double-spaced, 1 inch margins) paper which shows the relevance of the biases covered in the class and readings in the context of stories covered in the media. The 8-10 pages should be used to provide your analysis of the decision errors made by the actors in the newspaper account

or in the story itself. The Appendix to the paper should provide copies of the actual media reports. If you use television, movie, radio, etc., a transcript should be provided in the Appendix.

Due Date of the Final Paper: 2/4/96 - late papers are not eligible for an A in the course.

The self analysis or media application paper will be evaluated in terms of the following criteria: 1) Intellectual Understanding: How well you seem to understand the concepts you employ, 2) Creativity: How much you are able to extend, modify, or elaborate the concepts you employ, 3) Validity: How much you use descriptive data, which can be separated from the concept that you write about, to illustrate your points, 4) Perceptiveness: How much you are able to bring meaningful order to the data you choose to report, and 5) Organization: How clearly written and professionally presented the paper is.

Course Readings

Required

1. Bazerman, M.H. (1994). Judgment in Managerial Decision Making, New York: John Wiley and Sons, Inc. (B)
2. Case Packet

Optional

3. Gilovich, T. (1991). How We Know What Isn't So. Free Press. (G)
4. Thaler, R. (1991). The Winner's Curse. Free Press.
5. Dawes, R.M. (1988). Rational Choice in an Uncertain World, New York: Harcourt, Brace, and Jovanovich, Publishers.

Important note: Do not read course assignments in advance of the date for which they are assigned.

Course Outline

Class 1 - 1/7/96 - Introduction to Individual Decision Making

Course overview Quiz item exercises Introduction to biases

Readings: B, Chapter 1

Class 2 - 1/14/96 - Coping with Uncertainty and Decision Biases

The nature of uncertainty Where do biases come from? Are biases harmful? Framing of decisions Does the "Hot Hand" exist? Preference Reversals

Readings: B, Chapters 2-4 Curran, "Why Investors Make the Wrong Decisions" Negotiating with Yourself and Losing

Class 3 - 1/21/96 - Competitive Decision Making

Positive illusions, negative illusions Alternative perspectives to fairness Social Comparison in Job Choice Counterfactuals Creativity Auctions

Readings: B, Chapters 5, 6 and 9 B, Chapters 7-8 (only for those who have not and will not take OB D70)

Class 4 - 1/28/96 - Models versus Judgment

Policy capturing models When should models replace individuals? How should individual judgment be incorporated into decisions? Will you follow Dawes advice in the real world?

Readings: B, Chapter 10 Dawes, case packet on "The Robust Beauty of Improper Linear Models" B. Franklin's Letter "Wine Equation Puts Some Noses Out of Joint," NY Times

Class 5 - 2/4/96 - Decision Making in Practice

(Guest Speaker: Stephen Christakos) A discussion of the Kellogg admissions process Think about characteristics of the optimal system to admit M.M. students Putting together what we know about our decision processes

Readings: Newsweek, "A Rich Legacy of Preference" Dawes, Chapter 12