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**UNIVERSITÄT
BERN**

Faculty of Business, Economics
and Social Sciences

Department of Business
Administration

Institute for Accounting (IUC)

1 Title

Judgment and Decision Making Research Relevant to Financial Contexts

2 Faculty

Prof. Kathryn Kadous, PhD (Emory University)

3 Outline

3.1 Issues

This short course addresses basic judgment and decision making (JDM) research, with a focus on more recent trends in that literature. Readings will be from the psychology judgment and decision making literature. A major goal of class discussion will be relating these psychology findings to issues of interest to financial decisions, including interpretation and use of accounting and other financial information, decisions about which information to pursue, decisions about how to weight information, decisions about whether/when to trade, etc.

The topic list is not intended to be comprehensive or representative of the JDM literature; however, I did strive to identify topics that are highly relevant to JDM in financial contexts and that are under-utilized in the behavioral accounting and finance literatures. That said, there are numerous additional topics that I would have liked to have included! Thus, important goals of this course are to help you develop points of entry into the JDM literature for further study and to encourage development of new research questions and areas in accounting, finance, and business.

3.2 Course format

The course will be conducted in the typical style of a US seminar course. There will be daily commentary by the instructor, but the primary learning will be through your presentations and open discussion.

For day 1, I would like one or two participants to summarize the key ideas in each of the first four readings. Presenters should summarize their topic: decision models (Plous), heuristics and biases (Kahneman and Tversky), fast and frugal heuristics (Gigerenzer and Goldstein), and newer directions for JDM (Weber and Johnson) in about 10-12 slides. Then we will all discuss these issues in the remaining time. We will then move to the discussion of two more papers on a different topic, as below.

For each discussion paper (marked with an asterisk on the readings list below) on days 1 through 4, only one person will serve as discussion leader. The discussion leader should provide a 15-minute presentation, using about 10 slides for each paper. The exception is that the same

person should take the last 3 papers on day 4, which are all brief and revolve around a similar topic, including them in a single 15-minute presentation. In each case, the discussion should consider the following issues:

- What is the research question?
- How does the research relate to prior research?
- What are the specific hypotheses? How were they tested?
- What is the big insight from the paper (if any)?
- What reservations do you have about the paper (if any)?
- What applications do you see in financial reporting or other financial contexts (if any)?

Please note that you may need to do some background reading in order to fully understand the paper that you are presenting.

Discussion Participation: You should come to class thoroughly prepared to discuss each assigned paper. Please note that a few papers do not have assigned discussion leaders. They are mostly short, but important. Please make sure you are prepared to discuss these papers, as well as those for which leaders are assigned.

Daily Summary: You will be required to turn in a brief (no more than one page) summary of the key points for each class day, to be handed in the following day. Your summary should indicate the key points that you learned from the readings and discussions for that day, and it should also include any insights about how the covered research relates to accounting issues that you might study. Write your summaries in full sentences (not bullet points). These are intended to help you reflect on what you learned and relate it to potential research ideas.

Presentations: The afternoon of the final day of the course is reserved for participants to present their own research ideas. These presentations are voluntary, and faculty coordinators will assign times. During these presentations, the instructor will provide specific feedback on the research ideas, but will also focus with the class on how to present research and on how to critique work in an interactive setting. The language of the course is English.

3.3 Selected literature

The assigned literature consists of the accounting research articles listed in Section 6.

4 Administration

4.1 Schedule

Day 1 (June 8, 2015)

| | |
|-----------------------|--|
| 9:00-9:30 am | Welcome |
| 9:30-10:30 am | JDM Research: Where have we been? |
| 10:30-10:45 am | Coffee break |
| 10:45-12:15 pm | JDM Research: Where have we been? (continued) |
| 12:15-01:15 pm | Lunch |
| 01:15-2:00 pm | JDM Research: Where are we going? |
| 02:00-2:45 pm | Dual Processes of Reasoning |
| 02:45-03:00 pm | Coffee break |
| 03:00-4:30 pm | Dual Processes of Reasoning (continued) |

Day 2 (June 9, 2015)

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|-----------------------------|--|
| <i>Daily Topics:</i> | <i>Conscious and Non-conscious Goals, Role of the Self in JDM</i> |
| 9:00-10:30 am | Conscious and Non-conscious Goals |
| 10:30-10:45 am | Coffee break |
| 10:45-12:15 pm | Conscious and Non-conscious Goals |
| 12:15-01:15 pm | Lunch |
| 01:15-02:45 pm | Role of the Self in JDM |
| 02:45-03:00 pm | Coffee break |
| 03:00-4:30 pm | Role of the Self in JDM |

Day 3 (June 10, 2015)

| | |
|-----------------------|---|
| Daily Topics: | Self-Regulation/Self-Control, Affect |
| 9:00-10:30 am | Self-Regulation/Self-Control |
| 10:30-10:45 am | Coffee break |
| 10:45-12:15 pm | Affect |
| 12:15-01:15 pm | Lunch |
| 01:15-02:45 pm | Affect |
| 02:45-03:00 pm | Coffee break |
| 03:00-4:30 pm | In-Class Exercise |

Day 4 (June 11, 2015)

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|-----------------------|--|
| Daily Topics: | Loss Aversion, Presentations |
| 9:00-10:30 am | Loss Aversion |
| 10:30-10:45 am | Coffee break |
| 10:45-12:15 pm | Loss Aversion |
| 12:15-01:15 pm | Lunch |
| 01:15-02:45 pm | Presentation of own research projects 1 |
| 02:45-03:00 pm | Coffee break |
| 03:00-4:30 pm | Presentation of own research projects 2 |

4.2 Location

University of Bern, Engehaldenstr. 8, 3012 Bern. Room: 002.

5 Prerequisites

Students should have read accounting research published in the premier academic journals. Students do not need any background in psychology or experimental research, although experimental design and data analyses courses would be beneficial.

6 Course Material

6.1 Essential Reading Material

These will be provided to the students prior to the class.

DAY 1

JDM Research: Where Have We Been?

Plous, S. 1993. *The Psychology of Judgment and Decision Making*. New York, NY: McGraw-Hill, Inc. (Chapters 7 – 9, Afterword).

Tversky, A., & Kahneman, D. 1974. Judgment under uncertainty: Heuristics and biases. *Science* 185: 1124-1131.

Gigerenzer, G., & D. G. Goldstein. 1996. Reasoning the fast and frugal way: Models of bounded rationality. *Psychological Review* 103 (4): 650-669.

JDM Research: Where Are We Going?

Weber, E., & Johnson, E. 2009. Mindful judgment and decision making. *Annual Review of Psychology* 60: 53-85.

Dual Processes of Reasoning

Denes-Raj, V. & Epstein, S. 1994. Conflict between intuitive and rational processing: When people behave against their better judgment. *Journal of Personality and Social Psychology* 66: 819-829.*

Evans, J. 2003. In two minds: Dual-process accounts of reasoning. *Trends in Cognitive Sciences* 7: 454-459.

Kahneman, D. & Frederick, S. 2002. Representativeness revisited: Attribute substitution in intuitive judgment. In T. Gilovich, D. Griffin, and D. Kahneman, (Eds.) *Heuristics and Biases: The Psychology of Intuitive Judgment*, pp. 49–81. New York: Cambridge University Press.*

DAY 2

Conscious and Non-conscious Goals

Bargh J.A., Gollwitzer P.M., Lee-Chai A., Barndollar K., & Trötschel R. 2001. The automated will: Nonconscious activation and pursuit of behavioral goals. *Journal of Personality and Social Psychology* 81 (6): 1014-1027*

Holland, R. W., Hendricks, M., & Aarts, H. 2005. Smells like clean spirit: Nonconscious effects of scent on cognition and behavior. *Psychological Science* 16: 689-693.*

Custers R. & Aarts H. 2010. The unconscious will: How the pursuit of goals operates outside of conscious awareness. *Science* 329 (5987): 47-50.

Gollwitzer, P.M., Heckhausen, H., & Steller, B. 1990. Deliberative and implemental mind-sets - Cognitive tuning toward congruous thoughts and information. *Journal of Personality And Social Psychology* 59 (6): 1119-1127.*

Role of the Self in JDM

Sivanathan N., & Pettit, N.C. 2010. Protecting the self through consumption: Status goods as affirmational commodities. *Journal of Experimental Social Psychology* 46 (3): 564-570.*

Holland, R.W., Wennekers, A.M., Bijlstra, G., Jongenelen, M.M., & van Knippenberg, A. 2009. Self-symbols as implicit motivators. *Social Cognition* 27 (4): 579-600.*

Foster, J. D., Misra, T. A., & Reidy, D. E. 2009. Narcissists are approach-oriented toward their money and their friends. *Journal of Research In Personality* 43 (5): 764-769.*

DAY 3

Self-Regulation/Self-Control

Vohs, K. D., Schmeichel, B. J., Nelson, N. M., Baumeister, R. F., Twenge, J. M., & Tice, D. M. 2008. Making choices impairs subsequent self-control: A limited-resource account of decision making, self-regulation, and active initiative. *Journal of Personality and Social Psychology* 94 (5): 883-898.*

Hofmann, W., Schmeichel, B., J. and Baddeley, A. D. 2012. Executive functions and self-regulation. *Trends in Cognitive Sciences* 16 (3): 174-180.

Affect

Forgas, J. P. 2007. When sad is better than happy: Negative affect can improve the quality and effectiveness of persuasive messages and social influence strategies. *Journal of Experimental Social Psychology* 43 (4): 513-528.*

Finucane, M. L., Alhakami, A., Slovic, P., & Johnson, S. M. 2000. The affect heuristic in judgments of risks and benefits. *Journal of Behavioral Decision Making*, 13, 1-17.*

Fenton-O’Creevy, M., Soane, E., Nicholson, N., and Willman, P. 2011. Thinking, feeling and deciding: The influence of emotions on the decision making and performance of traders. *Journal of Organizational Behavior* 32: 1044-1061.*

DAY 4

Loss Aversion

Kahneman, D., Knetsch, J. L., and Thaler, R. H. 1991. The endowment effect, loss aversion, and status quo bias. *Journal of Economic Perspectives* 5: 193-206.*

Morewedge, C. K., Shu, L. L., Gilbert, D. T., and Wilson, T. D. 2009. Bad riddance or good rubbish? Ownership and not loss aversion causes the endowment effect. *Journal of Experimental Social Psychology* 45:947-951.*

Sokol-Hessner, P., Hsu, M., Curley, N.G., et al. 2009. Thinking like a trader selectively reduces individuals’ loss aversion. *PNAS* 106: 5035-5040.*

Bibby, P. A., and Ferguson, E. 2011. The ability to process emotional information predicts loss aversion. *Personality and Individual Differences* 51: 263-266.*

Sokol-Hessner, P., Camerer, C. F., and Phelps, E. A. 2013. Emotion regulation reduces loss aversion and decreases amygdala responses to losses. *Social Cognitive & Affective Neuroscience* 8 (3): 341-350.*

6.2 Additional Reading Material

none

7 To Prepare

All participants are required to read the essential reading material prior to the course and prepare the short discussion for their assigned papers.

8 Assessment

The grade will depend on

- Class Discussion: 50%
- Prepared Discussion: 25%
- Daily Summaries: 25%

The grading scale is 1 to 6 (6 is the highest grade). You can get 6 ECTS for the course.