



**LUND**  
UNIVERSITY

School of Economics and Management

## **NEKN22, Economics: Economic and Financial Decision Making, 7.5 credits**

*Nationalekonomi: Ekonomiskt och finansiellt beslutsfattande, 7,5 högskolepoäng*

Second Cycle / Avancerad nivå

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### **Details of approval**

The syllabus was approved by The Board of the Department of Economics on 2011-06-07 and was last revised on 2011-06-07. The revised syllabus applies from 2011-06-07, autumn semester 2011.

### **General Information**

This is a single subject master in economics. The course is either obligatory or optional within a number of master programmes at Lund University.

Teaching is in English. (Teaching may be in Swedish if all registered students have a good knowledge of Swedish).

*Main field of studies*

Economics

*Depth of study relative to the degree requirements*

A1N, Second cycle, has only first-cycle course/s as entry requirements

### **Learning outcomes**

#### 1. Knowledge and understanding

Students shall have a knowledge and understanding of:

- axiomatic theories of individual choice under risk and uncertainty,
- reference dependent utility theories,
- theories of inter-temporal decision making,
- how these theories contribute to the analysis of a wide range of fundamental problems in economics and finance
- psychological phenomena important for economic and financial decision making

## 2. Skills and abilities

Students shall have the ability to independently:

- apply models of decision making to problems in a wide range of economic and financial contexts,
- present verbal, graphical and mathematical representations of the theoretical models and communicate to a layman how the models can explain various economic phenomena, for example the demand for insurance and investor behaviour.

## 3. Applying knowledge and making judgements

Students shall have developed the ability to pursue further studies in the subject and should be able to search for and evaluate information with a high degree of independence. Students shall also have developed the ability to individually write an essay at the master level.

## Course content

A fundamental component in most economic analysis is a description of how individuals make decisions. The objective of the course is to introduce students to the study of economic and financial decision making. The course will review the classical models of decision under risk and uncertainty and confront the models with empirical evidence. Several behavioral regularities have been established concerning how individuals make decisions. In response to this evidence there is growing body of theoretical and applied work which will be examined.

Psychological research has pointed out a number of heuristics or rules of thumbs that are important for decision making. These heuristics give raise to series of biases in probably judgments and self-perceptions, which will be discussed in the course. The implications for behavior in economic and financial contexts will be analyzed as well as the potential for these biases to have an effect on aggregate market outcomes.

The last part of the course is devoted to the study of inter-temporal decision making. The course will cover the standard economic model based on exponential discounting, which assumes that behavior is time-consistent. However, there is empirical evidence that people sometimes behave in a time-inconsistent manner, postponing activities with immediate costs and being too eager on performing actions with immediate rewards. The course will review this evidence and discuss extensions of the standard model that can account for these phenomena.

Throughout the course, the theoretical discussions of decision making will be complemented with numerous economic and financial applications illustrating the underlying ideas and showing how they can be used in economic analysis.

No specific gender perspective is adopted in this course.

## Course design

1. Teaching: Tuition consists of lectures and tutorials.

## Assessment

1. Examination: Examination consists of compulsory assignments, participation in seminars, and a final written exam which takes place at the end of the course. There will be further opportunities for examination close to this date. Other forms of examination may be used to a limited extent.
2. Limitations on the number of examination opportunities: –

The University views plagiarism and other academic dishonesty very seriously, and will take disciplinary action against students for any kind of attempted malpractice in connection with examinations and assessments. Plagiarism is considered to be a very serious academic offence. The penalty that may be imposed for this, and other unfair practices in examinations or assessments, includes suspension from the University for a specified period.

*Subcourses that are part of this course can be found in an appendix at the end of this document.*

## Grades

Marking scale: Fail, E, D, C, B, A.

1. Grading: Grade (Definition), Points or percentage out of maximum points, Characteristic  
 A (Excellent), 85–100, A distinguished result that is excellent with regard to theoretical depth, practical relevance, analytical ability and independent thought.  
 B (Very good), 75–84, A very good result with regard to theoretical depth, practical relevance, analytical ability and independent thought.  
 C (Good), 65–74, The result is of a good standard with regard to theoretical depth, practical relevance, analytical ability and independent thought.  
 D (Satisfactory), 55–64, The result is of a satisfactory standard with regard to theoretical depth, practical relevance, analytical ability and independent thought.  
 E (Sufficient), 50–54, The result satisfies the minimum requirements with regard to theoretical depth, practical relevance, analytical ability and independent thought, but not more.  
 U (Fail), 0–49, The result does not meet the minimum requirements with regard to theoretical depth, practical relevance, analytical ability and independent thought. Students have to receive a grade of E or higher in order to pass a course.
2. Weighting grades from different parts of the course: –
3. Grading scales for different parts of the course: –

## Entry requirements

At least 60 ECTS-credits in economics at the undergraduate level are needed for admission till all master courses in economics. To be admitted to this particular course these credits must include an intermediate course in microeconomics (e.g., NEKG21

"Intermediate Microeconomic Analysis").

### **Further information**

1. Transitional regulations: This course replaces NEKM61 "Economic and Financial Decision Making".
2. Limitations in the period of validity: –
3. Limitations: This course may not be included in the same degree as NEK704 "Information, Risk and Uncertainty", NEKM27 "Information, Risk and Uncertainty" or NEKM61 "Economic and Financial Decision Making".
4. Similar courses. –
5. Limitations in renewed examination: –

## Subcourses in NEKN22, Economics: Economic and Financial Decision Making

Applies from H11

1101 Economic and Financial Decision Making, 7,5 hp  
Grading scale: Fail, E, D, C, B, A