



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

Details of approval

The syllabus was approved by The Board of the Department of Economics on 2011-06-07 and was last revised on 2022-09-13. The revised syllabus applies from 2023-01-16, spring semester 2023.

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.

Language of instruction: 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

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.

Competence and skills

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.

Judgement and approach

Students shall have the ability to interpret empirical results through the lens of the classical decision theories as well as the psychologically grounded alternative theories proposed by behavioural economics, and to apply these theories to design interventions to improve behavioural outcomes.

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. This will be done in two parts. First, we will review classical theories of rational economic and financial decision making and confront these theories with empirical evidence. Second, we will discuss alternative, more psychologically grounded, theories from behavioural economics that can better accommodate the empirical evidence.

The first part of this course will discuss how rational people should make simple decisions and form empirical judgments. This part also discusses the systematic ways in which real human beings deviate from these models in practice. A notable part of this discussion will focus on heuristics (simple decision rules) and the biases that result from relying on them. We will also cover mental accounting and more recent behavioral economic theories, as well as relevant empirical evidence.

The second part of this course will instead focus on decisions under risk and uncertainty. How should rational economic agents behave when facing risk or uncertain environments? How do they behave in practice? And what alternative models have behavioral economists developed to better explain the existing evidence? Large sections of this part will be about the rational benchmark of expected utility theory and the behavioural alternative of prospect theory, though we will discuss some other alternative models as well.

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 behaviour 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.

Course design

1. Teaching: Tuition consists of lectures and tutorials.

Assessment

1. Examination: Examination consists of compulsory and voluntary assignments, compulsory 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. Points earned on the different parts of the examination are valid in the current term.

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.

The examiner, in consultation with Disability Support Services, may deviate from the regular form of examination in order to provide a permanently disabled student with a form of examination equivalent to that of a student without a disability.

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

Students admitted to the Master programme in Economics and who have taken a

course in intermediate microeconomic analysis are qualified for this course. For other students at least 90 ECTS-credits in economics at the undergraduate level are needed for admission to all master courses in economics. To be admitted to this particular course these credits must include a course in intermediate microeconomic analysis (e.g. NEKG21).

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