For reference only (Tentative),
will be updated in AY2026/27

Lingnan University
Department of Economics

Course Title	:	Behavioral Economics
Course Code	:	ECO3216
Recommended Study Year	:	3 and 4
No. of Credits/Term	:	3
Mode of Tuition	:	Lecture-Tutorial
Class Contact Hours	:	2-hour lecture per week 1-hour tutorial per week
Category in Major Prog.	:	Major in Economics (Elective Course)
Discipline	:	Economics
Prerequisite(s)	:	(a) ECO2101 Introduction to Economics, or (b) ECO2104 Introduction to Microeconomics and ECO2105 Introduction to Macroeconomics, or (c) BUS2105 Microeconomics for Business
Co-requisite(s)	:	N/A
Exclusion(s)	:	N/A
Exemption Requirement(s)	:	N/A

Brief Course Description

This course will introduce basic concepts and theories to explain people's irrational behaviour in terms of economic activities. We observe that individuals and markets may behave *irrationally*, sometimes for extended periods of time. We will use psychology to explain these behaviours which are not consistent with the classical economic rational models. We will also apply theories to explain so-called *anomalies*, which have been frequently observed in financial markets. In short, this course will help to improve our conventional understanding about market efficiency.

Aims

This course aims to:

1. Equip the students with basic knowledge in behavioral economics; and

2. Enable the students to apply behavioral economics methodologies and insights to matters arising in our daily lives.

Learning Outcomes (LOs)

Upon completion of this course, successful students should be able to:

1. describe the prevalent features of irrational behavior in financial markets;
2. identify some typical errors made by financial market participants as a result of behavioral biases;
3. exhibit an understanding of and analyse the trading behaviors and patterns in the financial markets from a behavior economics perspective; and

4. explain market anomalies using behavior economic approaches.

Indicative Contents

1. Introduction: Choice, Uncertainty and Decision-Making
2. Rational Choice and Decision-Making under Certainty
   a. Opportunity Costs and Sunk Cost Fallacy
   b. Menu dependence and the Decoy Effect
   c. Lost Aversion and the Endowment effect
3. Uncertainty and Probability Judgment
   a. Bayes' updating
   b. Gambler's fallacy
   c. Base-rate neglect
   d. Confirmation bias
4. Decision-making under Risk and Uncertainty
   a. Attitudes towards Risk
   b. Framing Effects, Bundling and Mental Accounting
   c. The Allais Problem and the Sure-thing Principle
5. Intertemporal Choices
   a. Exponential Discounting and Hyperbolic Discounting
   b. Time-consistent Discounting
   c. Choosing not to Choose
6. Foundation of Finance and Challenges to Market Efficiency
7. Heuristics and Biases and Implications for Financial Decision Making
8. Decision-Making and Strategic Interaction:
   a. Prisoner's dilemma and coordination games
   b. Envy, Fairness, and Justice
   c. Reciprocity and Trust

Teaching Method

There will be a two-hour lecture plus a one-hour tutorial per week. The two-hour lectures are mainly used to discuss basic concepts and theories underlying different economic and social systems in the world. Tutorials take the form of student presentations and discussions. Students are often asked to respond to questions and are then guided to consider what may have been overlooked.

Measurement of Learning Outcomes

1. Presentation and debate in tutorials can test the breadth of student knowledge about how the anomalies that cannot be explained by standard economic theory can be explained by behavioral theories that incorporate psychological insights, and their ability to clearly present their ideas/arguments. (LOs 1-4)
2. Two midterm tests will be used to mainly assess student understanding of basic concepts and theories as well as their ability to apply the theories and concepts to analyse relevant issues. (LOs 1-4)

Assessment

Attendance and participation	15%
Presentation of research papers in tutorials	20%

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1st Mid-term Test	30%
2nd Mid-term Test	35%

Required Textbook

Angner, Erik, (2016) *A Course in Behavioral Economics* , 2nd edition, (Macmillan).

Supplemental Readings

1. Ackert, L.F., and R. Deaves (2010)
   Behavioral Finance --- Psychology, Decision-Making, and Markets (Cengage Learning).

2. Baddeley, M. (2012) *Behavioural Economics and Finance* (Routledge).

3. Dowling, J.M., and Yap Chin-Fang (2007)
   Modern Developments in Behavioral Economics (World Scientific).

4. Forbes, William (2009) *Behavioural Finance* (John Wiley & Sons).

5. Wilkinson, N. and M. Klaes, (2012)
   An Introduction to Behavioral Economics, 2nd edition (Macmillan).

Important Notes:

(1) Students are expected to spend a total of 9 hours (i.e. 3 hours of class contact and 6 hours of personal study) per week to achieve the course learning outcomes.

(2) Students shall be aware of the University regulations about dishonest practice in course work, tests and examinations, and the possible consequences as stipulated in the Regulations Governing University Examinations and Course Work. In particular, plagiarism, being a kind of dishonest practice, is "the presentation of another person's work without proper acknowledgement of the source, including exact phrases, or summarised ideas, or even footnotes/citations, whether protected by copyright or not, as the student's own work". Students are required to strictly follow university regulations governing academic integrity and honesty.

(3) Students are required to submit writing assignment(s) using Turnitin.

(4) To enhance students' understanding of plagiarism, a mini-course "Online Tutorial on Plagiarism Awareness" is available on https://pla.ln.edu.hk/.

(5) Students must adhere to the University's guidelines and practices when using Generative Artificial Intelligence (AI) tools. The official documents "Guidelines for Using GAI Tools at Lingnan University" and "Best Practices for Ethical and Responsible Use of GAI Tools in Course Assessments" can be found here: https://www.ln.edu.hk/tlc/generativeartificial-intelligence/gai-guidelines-best-practices.

Assessment Rubrics for the First and Second Midterm Test and Presentation (30%, 35% and 20%)

Dimensions	Excellent A-, A	Good B+ to B-	Fair C+ to C-	Pass D+ to D-	Failure F

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Understand the basic concepts, reasoning and methodology of behavioral economics. (12% and 20%)	Thorough understanding of the basic concepts, reasoning and methodology.	Good understanding of the basic concepts, reasoning and methodology.	Medium understanding of basic concepts, reasoning and methodology.	Basic understanding of the basic concepts, reasoning and methodology.	Little understanding of the basic concepts, reasoning and methodology.
Grasp the conceptual framework for understanding rational decision-making and behavioral biases. (12% and 20%)	Always able to understand alternative explanations to the often observed human behavioral biases from the behavior theories.	Usually able to understand alternative explanations to the often observed human behavioral biases from the behavior theories.	Able to understand alternative explanations to the often observed human behavioral biases from the behavior theories.	Sometimes able to understand basic alternative explanations to the often observed human behavioral biases from the behavior theories.	Fail to understand any alternative explanations to the often observed human behavioral biases from the behavior theories.
Apply behavioral economics (BE) to real-life situations. (6% and 10%)	Always able to apply BE framework in a consistent way to analyse real-life situations	Usually able to utilize BE framework in a consistent way to analyse real-life situations.	Able to utilize BE framework to analyse real-life situations	Sometimes able to utilize BE framework to analyse real-life situations	Not able to use BE framework to analyse any real-life situation.

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Assessment Rubric for Group Projects/Quizzes/Assignments (20%)

Dimensions	Excellent A-, A	Good B+ to B-	Fair C+ to C-	Pass D+ to D-	Failure F
Content (10%)	Shows excellent grasp of the research papers; provides insightful evaluations and comments.	Shows good grasp of the research papers; provides good evaluations and comments.	Shows fair grasp of the research papers; provides fair evaluations and comments.	Shows acceptable grasp of the research papers; provides acceptable evaluations and comments.	Shows little or no grasp of the research papers; provides little or no evaluations and comments.
Organization and Articulation (5%)	Organizes and presents materials in a logical and appealing way that is easy to understand and interesting to watch.	Organizes and presents materials in a generally logical way that is understandable and somewhat engaging.	Organizes and presents materials in an understandable and fairly interesting way.	Organizes and presents materials in a way that is understandable but not interesting to watch.	Organizes and presents materials in an illogical way that is hard to understand and boring to watch.