Faculty of Business Management and Economics

SUMMER MODULE COURSE

Title		
Decision-Making under Risk – Theory and Applications		
Responsible:	**Target group**	**Number of participants**
Prof. Dr. Daniela Lorenz & Prof. Dr. Daniel Müller	Bachelor / early Master level	-
Course period:	**Term:**	**ECTS:**
1-week online courses: 19 July until 23 July 2021	summer semester 2021	5

Contents & Objectives:

A core topic in microeconomic and finance is decision making under risk and uncertainty – with, for example, insurance choice and portfolio selection as key applications. This course aims at:

1. Familiarizing participants with a solid understanding of the economic standard model of decision making under risk and its empirical challenges
2. Provide an overview of (both classic and contemporary) psychologically motivated alternative models of decision making and foster a deeper understanding of how these models relate to each other.

Prerequisites:

No prior knowledge is required or expected.

Course Structure:

(# day/ # lecture)	CONTENTS
1st Day / 1st+2nd Lecture	Expected Utility Theory and Applications
1st Day / 3rd+4th Lecture	Tutorial / Problem Sets
2nd Day / 1st+2nd Lecture	Empirical Challenges to Expected Utility Theory
2nd Day / 3rd+4th Lecture	Tutorial / Problem Sets
3rd Day / 1st+2nd Lecture	Classic Behavioural Theories and Applications (e.g., Prospect Theory, Regret Theory)
3rd Day / 3rd+4th Lecture	Tutorial / Problem Sets
4th Day / 1st+2nd Lecture	Contemporary Behavioural Theories and Applications (e.g., Salience Theory)
4th Day / 3rd+4th Lecture	Tutorial / Problem Sets
5th Day / 1st+2nd Lecture	Comparison of different Behavioural Theories
5th Day / 3rd+4th Lecture	Tutorial / Problem Sets

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Literature:

Key Readings:

- Bordalo, P., Gennaioli, N., Shleifer, A., 2012. Salience theory for choice under risk. Quarterly Journal of Economics, Vol. 127, 1243-1285.
- Herweg, F., Müller, D, 2021. A comparison of regret theory and salience theory for decisions under risk. Journal of Economic Theory, Vol. 193.
- Loomes, G., Sugden, R., 1982. Regret theory: An alternative theory of rational choice under uncertainty. Economic Journal, Vol. 92, 805-824.
- Loomes, G., Sugden, R., 1987. Some implications of a more general form of regret theory. Journal of Economic Theory, Vol. 41, 270-287.
- Kahneman, D., Tversky, A., 1979. Prospect theory: An analysis of decision under risk. Econometrica, Vol. 47, 263-291.
- Tversky, A., Kahneman, D., 1992. Advances in prospect theory: Cumulative representation of uncertainty. Journal of Risk and Uncertainty, Vol. 5, 297–323.
- Starmer, C., 2000. Developments in non-expected utility theory: The hunt for a descriptive theory of choice under risk. Journal of Economic Literature, Vol. 38, 332-382.
- Wakker, P. P., 2010. Prospect theory: For risk and ambiguity. Cambridge university press.

Additional Readings:

- Baddeley, M., 2018. Behavioural economics and finance. Routledge, chapter 7.
- Barberis, N.C., 2013. Thirty years of prospect theory in economics: A review and assessment. Journl of Economic Perspectives, Vol.27, 173-196.
- Bleichrodt, H., Wakker, P. P., 2015. Regret Theory: A bold alternative to the alternatives. Economic Journal, Vol. 125, 493–532.
- Bordalo, P., Gennaioli, N., Shleifer, A., 2013a. Salience and asset prices. The American Economic Review, Vol. 103, 623-628.
- Cosemans, M., Frehen, R., 2020. Salience theory and stock prices: Empirical evidence. Journal of Financial Economics.
- Starmer, C., Sugden, R., 1989. Probability and juxtaposition effects: An experimental investigation of the common ratio effect. Journal of Risk and Uncertainty, Vol. 2, 159-178.

Assessment:

Online exam, 60 Minutes, July 30, 2021

Contact:

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Prof. Dr. Daniel Müller (daniel.mueller2@uni-wuerzburg.de)

Application:

- transcript of records (regarding your current degree programme)
- certificate of secondary school
- short CV
- copy of passport
- application form (will be generated in the application process)

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