



Why do we do that?
Diving Into Behavioral Economics

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Agenda



- **Journal and Approach**
- **Overview and Application Ideas**
 - **Assessment**
 - **Resources**
 - **Q and A**

Objectives



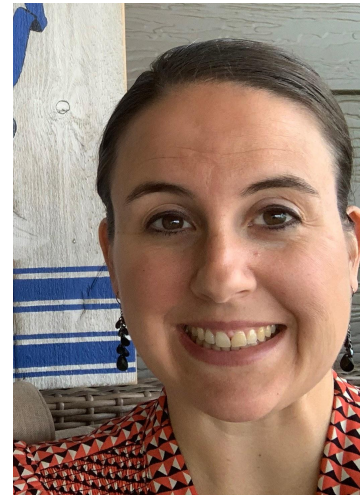
Participants will be able to analyze the differences between traditional economics and behavioral economics through a variety of examples and resources to implement into their 6-12 social studies classroom.

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Dr. Cynthia Fitzthum

Director of Economic Education, St. Cloud State University



- Professor of Social Studies Education and Economic Education
- K-16 Economic Education Projects
- Former 5-12 Social Studies Teacher
- K-12 Principal, K-12 Superintendent Licenses

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Key Terms- [EconEdLink](#) Glossary

Decision Making

Reaching a conclusion after considering alternatives and their results.

Choice

An act of selecting or making a decision when faced with two or more alternatives.

Incentive

A factor, often a monetary reward or advantage, that encourages people to do something — as in "Tax provisions in the new forest management program give landowners an incentive to take good care of the trees on their property."

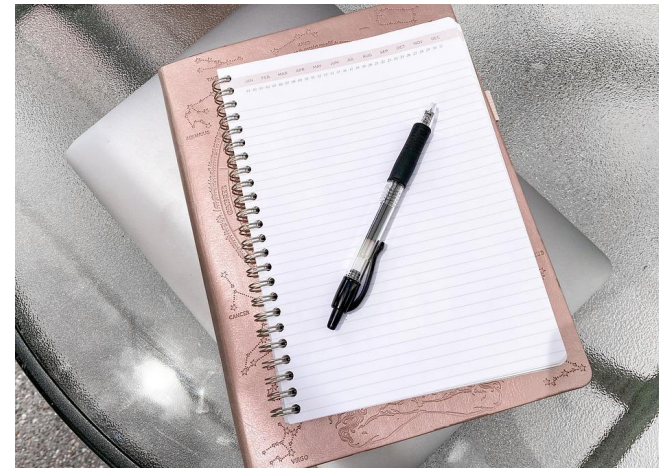
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Reflection Journal

Paper or Word Document

- **Pause and reflect:**
 - **Answer the questions**
 - **Make connections to your situation**
 - **Application**



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What is your experience with behavioral economics?

Reflect in journal.

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Overview and Application Ideas

(EconEdLink, Personal Examples)

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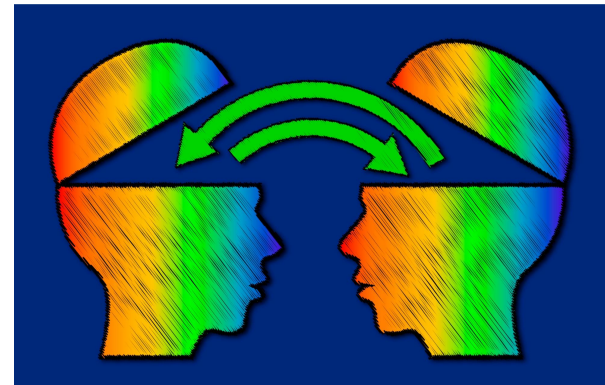


Warm-up: Reflection

1. In economics, making a rational decision is not the same thing as making a decision that everybody else would say is smart. Do you think that you are a rational person? How?
2. In economics, being rational means that we choose the thing we like the best, and in economics, we don't try to understand why someone makes the choices they do. We just assume that people weigh the costs and benefits and make a choice. What do you think about this economics assumption?
3. Have you ever made an irrational decision? Write one example about the time you made an irrational decision.

Definition: Behavioral Economics

- Behavioral economics uses variants of traditional economic assumptions (often with a psychological motivation) to explain and predict behavior, and to provide policy prescriptions. (Laibson & List, 2015)



Two Systems: A Brief Background

- **System 1** – “operates automatically and quickly, with little or no effort and no sense of voluntary control.”
- **System 2** – “allocates attention to the effortful activities that demand it, including complex computations. The operations of System 2 are often associated with the subjective experience of ... choice.”

Kahneman, Daniel. 2011. *Thinking, Fast and Slow*. New York: Farrar, Straus and Giroux

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System 1 vs. System 2



System 1	System 2
Emotional	Analytic
Fast	Slow
Reflexive	Reflective
Effortless	Effortful
Impulsive	Deliberative
Short-sighted	Patient



The Issue and Principles: Discuss As Class

- People try to choose the best feasible option, but they sometimes don't succeed.
- Although we mostly care about our own material payoffs, we also care about the actions, intentions, and payoffs of others.
- People care (in part) about how their circumstances compare to reference points.
- People have self-control problems.

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The Why: Do You Agree?

- People make mistakes when faced with certain types of decisions.
- By understanding when they are likely to make mistakes, people can avoid errors.
- Being a good economist means understanding when we are likely to be human!

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***Pause: How will your students
react to this information?***

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BOOK- Nudge: Improving Decisions about Health, Wealth, and Happiness

by [Richard H. Thaler](#) and [Cass R. Sunstein](#)

Common "Nudges"

The design of menus gets you to eat (and spend) more. For example, lining up all prices on either side of the menu leads many consumers to simply pick the cheapest item. On the other hand, discretely listing prices at the end of food descriptions lets people read about the appetizing options first...; and then see prices.

"Flies" in urinals improve, well, aim. When Amsterdam's Schiphol Airport was faced with the not uncommon issue of dirty urinals, they chose a unique solution: by painting "flies" in the (center of) commodes, men obligingly aimed at the insects, reducing spillage by 80 percent.

Credit card minimum payments affect repayment schedules. Among those who only partially pay off credit card balances each month, the repayment level is correlated with the card's minimum payment — in other words, the lower the minimum payment, the longer it takes a consumer to pay off the card balance.

Side Bar:

Discussions

“Standard economics assumes that we are rational... But, as the results presented in this book (and others) show, we are far less rational in our decision making... **Our irrational behaviors are neither random nor senseless- they are systematic and predictable.** We all make the same types of mistakes over and over, because of the basic wiring of our brains.-pg. 239”

Dan Ariely, *Predictably Irrational: The Hidden Forces That Shape Our Decisions*

BOOK- The Economic Naturalist: In Search of Explanations for Everyday Enigmas

By: Robert H. Frank

Why do the keypads on drive-up cash machines have Braille dots?

Why are round-trip fares from Orlando to Kansas City higher than those from Kansas City to Orlando?

For decades, Robert Frank has been asking his economics students to pose and answer questions like these as a way of learning how economic principles operate in the real world-which they do everywhere, all the time. Once you learn to think like an economist, all kinds of puzzling observations start to make sense.

The Economic Naturalist employs basic economic principles to answer scores of intriguing questions from everyday life, and, along the way, introduces key ideas such as the cost-benefit principle, the "no cash on the table" principle, and the law of one price. This is as delightful and painless a way to learn fundamental economics as there is.

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“In fact quite generally, commercial advertising is fundamentally an effort to undermine markets. We should recognize that. **If you’ve taken an economics course, you know that markets are supposed to be based on informed consumers making rational choices.** You take a look at the first ad you see on television and ask yourself ... is that its purpose? No it’s not. It’s to create uninformed consumers making irrational choices. And these same institutions run political campaigns. It’s pretty much the same: you have to undermine democracy by trying to get uninformed people to make irrational choices.”

Noam Chomsky, *The Kind of Anarchism I Believe in, and What's Wrong with Libertarians*

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Activity: Ultimatum Game

EconEdLink On Demand Webinar & Lesson-



[Behavioral Economics: How Emotions Impact](#)

This webinar will explain how to run the classical behavioral experiment called the Ultimatum Game with your students. The discussion of the results includes comparisons between the thought and decision making process of “Econs” and “Humans”. The rational decision-making of an Econ is contrasted with that of the fairness-minded human.

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National Standards

CEE Standard 4: Incentives (People usually respond predictably to positive and negative incentives.)

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State Standards

- MN Standard 10: Micro (Analyze how incentives influence the decisions of consumers.)

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Assessment Ideas

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Assessment (Written Reflection Afterwards)

Tell the students that you are considering giving each of them some extra credit.

Hand out to each student a slip of paper with a number from 1 to 10 written on it. Explain to the students that you are considering giving each of them the points shown on their slip as extra credit. Ask them if they would like the extra credit. (Yes, although some may be disappointed at the fact that they only received 1 point.)

Ask a few of the students to announce how much extra credit you are considering given them, continuing until the students get a sense that some received a lot more points than others. Ask the students if they are still happy with their potential extra credit. (Accept a wide range of answers, but ask students who suggest that this is not fair to elaborate on why they believe the distribution is unfair.)

Tell the students that behavioral economists have shown that fairness and other principles matter to people. In this case, some who should have been happy are not because of the uneven distribution.

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Quotes:

Discuss with students

“Wouldn't economics make a lot more sense if it were based on how people actually behave, instead of how they should behave?”

– Dan Ariely, *Predictably Irrational: The Hidden Forces That Shape Our Decisions*

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Extension Ideas

- **Freakonomics Movie or Book**
- **Create your own Enigma**

Other? Reflect now....



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Supporting Materials

This [link](#) gives a great overview:

- Behavioral Economics Lesson Plan 1: Introduction to Behavioral Economics
- Behavioral Economics Lesson Plan 2: The Anchoring Effect
- Behavioral Economics Lesson Plan 3: Loss Aversion, Endowment Effects, and Default Bias
- Behavioral Economics Lesson Plan 4: Why Are We So Impatient?
- Behavioral Economics Lesson Plan 5: Other Things Matter

References

- Additional MCEE K-12 Resources: z.umn.edu/TeacherResources
- Council for Economic Education (National):
 - [EconEdLink](#)

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Q & A (Or Comments)

Invest In Girls



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TO
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Girls, let's get smart(er) about money

Our FREE online programs are tailored to high school girls so they can learn about personal finance in a supportive environment and build confidence on money matters.

Winter offerings



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Questions? Email Cristina Medina at cmedina@investgirls.org



FinEd50 is a coalition of non-profit organizations, researchers, corporate partners, and professional organizations that believes that personal finance education is a crucial tool to helping people better navigate their financial lives, make informed decisions regarding their life choices, and take more control over their own futures.

FinEd50: Financial Education for American

Currently, only 24 states require personal finance education courses in the United States. Research indicates that a quality financial education leads to improved future credit scores, declines in payday lending, student loan payment increases, student borrowing shifting to lower cost options, and overall financial well-being!

Recognizing that education is the realm of state and local leadership, FinEd50 is dedicated to achieving:

State Level Action: State-level action that guarantees equitable access for every student to a robust, high-quality personal finance course;

National Standards: Courses and educational materials that address the content outlined in National Standards for Personal Financial Education and are culturally relevant and respectful to students' lived experiences;

Innovative Funding: Innovative funding mechanisms and professional development in place to support and develop a corps of high-quality teachers with access to new professional development opportunities to teach personal finance; and

Measurement: A mechanism for measuring access to courses on personal financial literacy and equitable reach of state requirements.

Learn more about FinEd50:

Advocacy

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CEE Affiliates



A network of 200 nationwide affiliates

Provide professional development for K-12 teachers, advocate for including economics and personal finance in K-12 schools, conduct research, and forge partnerships.

<https://www.councilforeconed.org/resources/local-affiliates/>

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