

MBA and M.Sc. Courses

1231.3929.01 – The meaning of money: Incentives and behavior change

Summer Semester – 2016

Section	Day	Hour	Classroom	Exam date	Lecturer	Email	Telephone
01	Sunday-Thursday	15:45-20:15	TBA		Prof. Uri Gneezy		

Office Hours: TBA

Course Units

1 course unit = 4 ECTS units

The ECTS (European Credit Transfer and Accumulation System) is a framework defined by the European Commission to allow for unified recognition of student academic achievements from different countries.

Course Description

Summary

The assumption that all incentives are created equal can lead managers, for example, to overestimate the return on employee incentive programs and fail to recognize valuable cost savings. Research in the field of psychology and behavioral economics has shown how small changes to incentive structure can have a dramatic impact on the organization's goals. Too often, companies put incentives in place without an accurate measure of the effect they have on behavior. In this course, we will learn how to identify and avoid waste in commonly used incentive programs. Then, drawing on insights from research, we will learn how small differences in the structure of incentives programs can greatly impact effectiveness.

Providing a framework of six simple principles that can help organizations evaluate and improve incentive schemes, participants will learn how to apply these principles to areas such as customer reward & loyalty programs.

General

Economists often emphasize that “incentives matter.” The basic “law of behavior” is that higher incentives will lead to more effort and higher performance: principals who are employers, for example, often use extrinsic incentives to motivate their employees. In recent years, the use of incentives in behavioral interventions has become more popular. Should students be provided with financial incentives for increased school attendance, for reading, or for better grades? Will financial incentives encourage higher contributions to public goods, like blood donations? Should programs to reduce smoking or to encourage exercise include a monetary incentive? These applications of incentives have provoked heated debate. Proponents of using incentives in behavioral interventions argue, for example, that monetary incentives can be helpful in getting people to study or exercise more. Opponents believe that using incentives in those areas could backfire, because extrinsic incentives may in some way crowd out intrinsic motivations that are important to producing the desired behavior.

In class we will discuss some general aspects of how extrinsic incentives may come into conflict with other motivations. For example, monetary incentives from principals may change how tasks are perceived by agents. If incentives are not large enough, this change in perception can lead to undesired effects on behavior. In other cases, incentives might have the desired effects in the short term, but they still weaken intrinsic motivations. Thus, once the incentives are removed, people may pursue the desired outcome less eagerly. To put it in concrete terms, an incentive for a child to learn to read could achieve that goal, but then be counterproductive as an incentive for students to enjoy reading and seek it out over their lifetimes.

Course Objectives

Upon completion of the course, the student will be able to:

1. Evaluate the effectiveness of incentive schemes
2. Optimize the return on incentives
3. Design a successful behavioral program in an organization

Evaluation of Student and Composition of Grade

Percentage	Assignment	Date	Group Size/Comments
50%	Class participation (including presentation)		
50%	Final project		

* According to University regulations, participation in all classes of a course is mandatory (Article 5).

* Students who absent themselves from classes or do not actively participate in class may be removed from the course at the discretion of the lecturer. (Students remain financially liable for the course even if they are removed.)

Course Assignments

Participants will be given assignments for discussion in class, and will be asked to present their solution to these assignments.

Final project which will include identifying an incentive scheme that is sub-optimal, and suggesting a way to improve its efficiency.

Grading Policy

In the 2008/9 academic year the Faculty instituted a grading policy for all graduate level courses that aims to maintain a certain level of the final course grade. Accordingly, this policy will be applied to this course's final grades.

Additional information regarding this policy can be found on the Faculty website.

Evaluation of the Course by Student

Following completion of the course students will participate in a teaching survey to evaluate the instructor and the course, to provide feedback for the benefit of the students, the teachers and the university.

Course Site (Moodle)

The course site will be the primary tool to communicate messages and material to students. You should check the course site regularly for information on classes, assignments and exams, at the end of the course as well.

Course material will be available on the course site.

Please note that topics that are not covered in the course material but are discussed in class are considered integral to the course and may be tested in examinations.

Course Outline*

Week	Date	Topic(s)	Required Reading	Submissions	Comments
1	10/7/16				
2	11/7/16				
3	12/7/16				
4	13/7/17				
5	14/7/16				

*Subject to change

Required Reading

Gneezy, U. and J. List "The Why Axis"

Gneezy, U., and A. Rustichini "Pay Enough or Don't Pay At All."

Gneezy, U., E. Haruvy, and H. Yafe "The inefficiency of splitting the bill: A lesson in institution design"

Ariely, D., U. Gneezy, G. Loewenstein and N. Mazar (2008) "Large Stakes and Big Mistakes,"

Charness, G. and U. Gneezy "Incentives to Exercise." *Econometrica*, 2009, 77 (3), 909-931.

Gneezy, U., Meier, S., & Rey-Biel, P. (2011) "When and Why Incentives (Don't) Work to Modify Behavior."