

What Business Anthropology Can Learn from Behavioral Economics

FORDHAM | Gabelli School
THE JESUIT UNIVERSITY OF NEW YORK of Business

SRIS CHATTERJEE

AND VICE VERSA

2019 Global Business Anthropology Summit
Workshop
May 29, 2019



PATTI SUNDERLAND

Agenda

- ▶ 1:15 – 1:20 Introduction To Workshop + US
- ▶ 1:20 – 1:40 Introduction To Behavioral Economics (with activity)
- ▶ 1:40 - 2:00 Cultural Glimpse into BE
- ▶ 2:00 – 2:20 Provocation 1: Freakonomics
- ▶ 2:20 – 2:40 Provocation 2: Misbehaving
- ▶ 2:40 – 2:45 Final Questions/Comments

- ▶ 2:45 – Finished!

Behavioral Finance

WHAT IS IT?

Behavioral Finance: Definition & Themes

► Definition:

Behavioral Finance is a field based on psychology and economics that investigates markets and prices when some agents display “non-rational” behavior

► Themes:

Hersh Shefrin summarizes the three themes of Behavioral Finance as:

- People use rules of thumb (Heuristic Driven Biases)
- Form is important (Frame Dependence)
- Prices may not reflect value (Inefficient Markets)

Behavioral Finance: Contributions

- ▶ To document price patterns that seem inconsistent with traditional finance models of efficient markets and rational investors
- ▶ To document investor behavior that is inconsistent with the advice of traditional finance theory
- ▶ To provide new theories for the above, often based on psychology or experimental evidence
- ▶ To show that arbitrage by rational investors may not force prices to fundamentals

A Funny Thing Happened on the Way to EMH: The case of EntreMed

- ▶ Friday, May 1, 1998, closing price is \$12.063.
- ▶ Sunday, May 3, 1998, *New York Times* mentions EntreMed in a report on recent breakthrough in cancer research.
- ▶ This was zero new information, because the substance of the report was already published in *Nature* in 1997 and earlier reports in the popular press, including *Times* in November 1997.
- ▶ But EntreMed opened on Monday at \$85 and closed near \$52! It closed above \$30 in the following three weeks.
- ▶ After the WSJ reported on November 12, 1998, that other labs had failed to replicate the EntreMed results reported in the *Times*, the stock still closed at close to \$25 !!

Another Example: MCI - MCIC

- ▶ A research paper shows that much of the price movement in the Massmutual Corporate Investors closed-end fund is due to investors mistakenly confusing its ticker symbol (MCI) when they respond to information released by MCI Communications (MCIC).
- ▶ The title of the study (published in *Journal of Finance*, 2001) is:
Massively Confused Investors Making Conspicuously Ignorant Choices (MCI- MCIC)

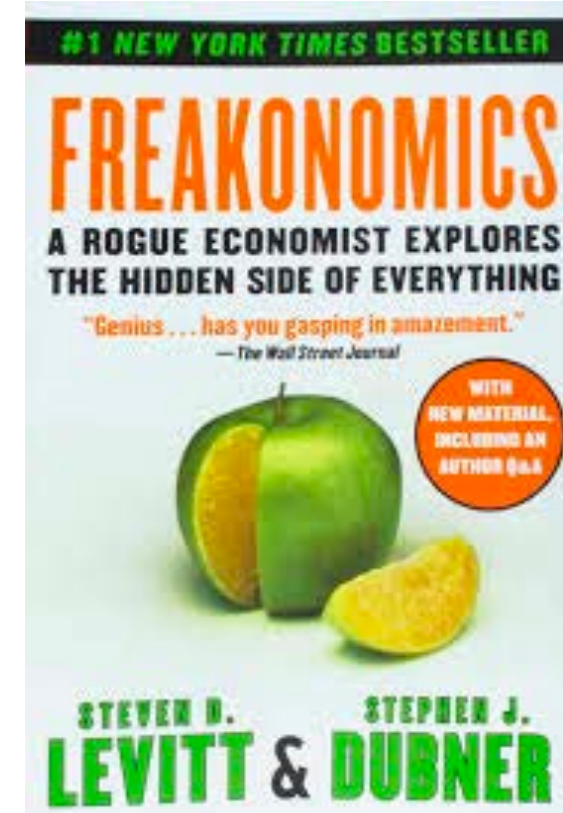
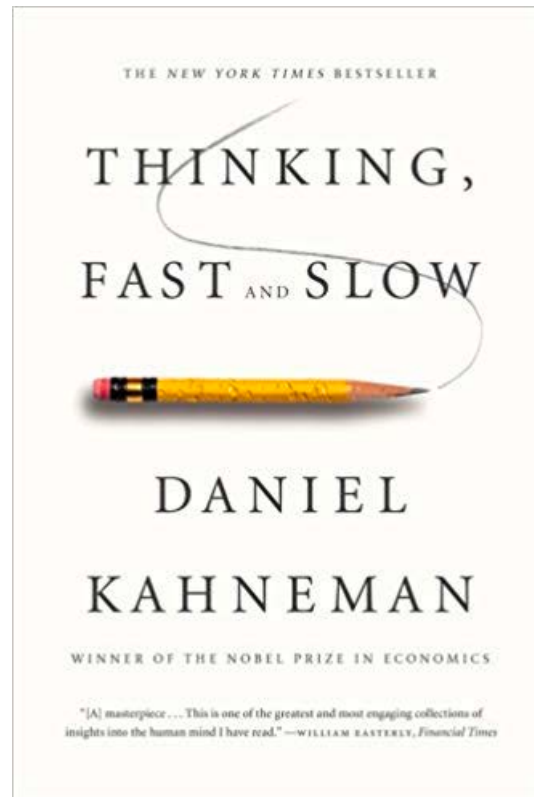
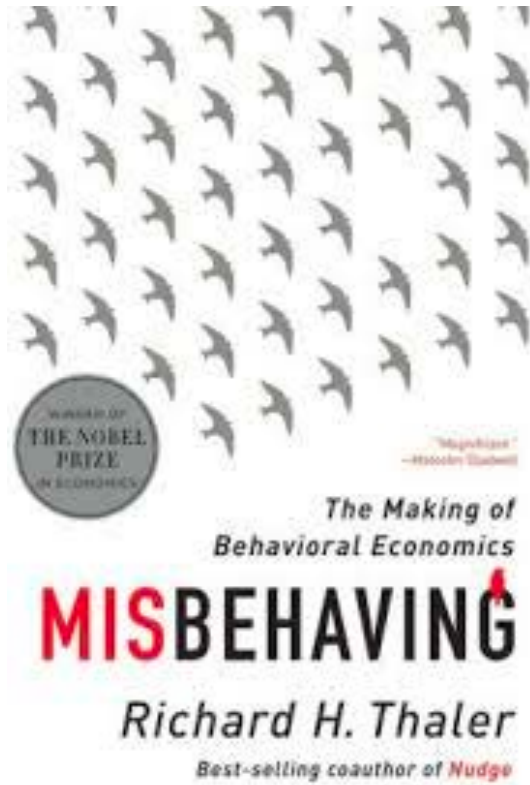
Royal Dutch Shell

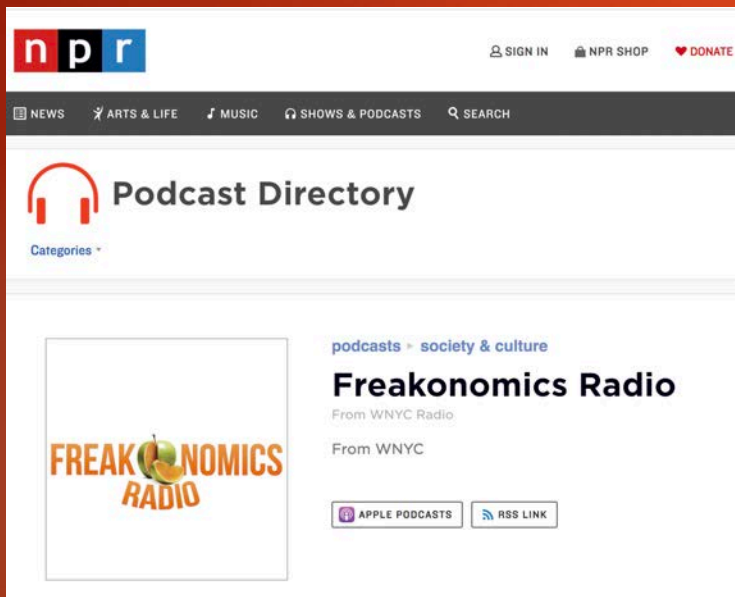
- ▶ Royal Dutch Petroleum and Shell Transport & Trading are independently incorporated in the Netherlands and England.
- ▶ All cash flows, adjusting for corporate tax considerations and control rights, are split 60:40 after a 1907 alliance. The Annual Report clarifies these linkages and price disparities lead to “Switch” trades.
- ▶ Royal Dutch trades primarily in the U.S. and the Netherlands, and is included in the S&P500 and virtually every Dutch Index. Shell trades predominantly in the U.K. and is in the FTSE.
- ▶ Royal Dutch is sometimes 35% underpriced, and sometimes 15% overpriced !

Tech-Stock Carve-outs followed by Spin-offs

- ▶ On March 2, 2000, 3Com completed a 5% Equity Carve-out of Palm and announced that, pending an IRS approval, it would Spin-off its remaining 95% ownership.
- ▶ Spin-off terms: 3Com shareholders would receive about 1.5 Palm shares (1.525 exactly) for every 3Com share.
- ▶ The day before the Palm IPO, 3Com closed at \$104.13 and after the first day of trading, Palm closed at \$95.06.
- ▶ 3Com should have jumped to \$145, but actually fell to \$81.81.
- ▶ This implied a stub value of (\$63) for 3Com !
- ▶ Alternatively, the value of non-Palm business is negative \$22 bn !!

A Cultural Glimpse of BE





MOST RECENT EPISODES

MAY 15, 2019

378. 23andMe (and You, and Everyone Else)

The revolution in home DNA testing is giving consumers important, possibly life-changing information. It's also building a gigantic database that could lead to medical breakthroughs. But how will you deal with upsetting news? What if your privacy is compromised? And are you prepared to have your DNA monetized? We speak with Anne Wojcicki, founder and C.E.O. of 23andMe.

▶ LISTEN · 49:58

+ PLAYLIST



MAY 8, 2019

377. The \$1.5 Trillion Question: How to Fix Student-Loan Debt?

As the cost of college skyrocketed, it created a debt burden that's putting a drag on the economy. One possible solution: shifting the risk of debt away from students and onto investors looking for a cut of the graduates' earning power.

|| LISTEN · 51:24

+ PLAYLIST



MAY 1, 2019

376. The Data-Driven Guide to Sane Parenting

Humans have been having kids forever, so why are modern parents so bewildered? The economist Emily Oster marshals the evidence on the most contentious topics — breastfeeding and sleep training, vaccines and screen time — and tells her fellow parents to calm the heck down.

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APRIL 24, 2019

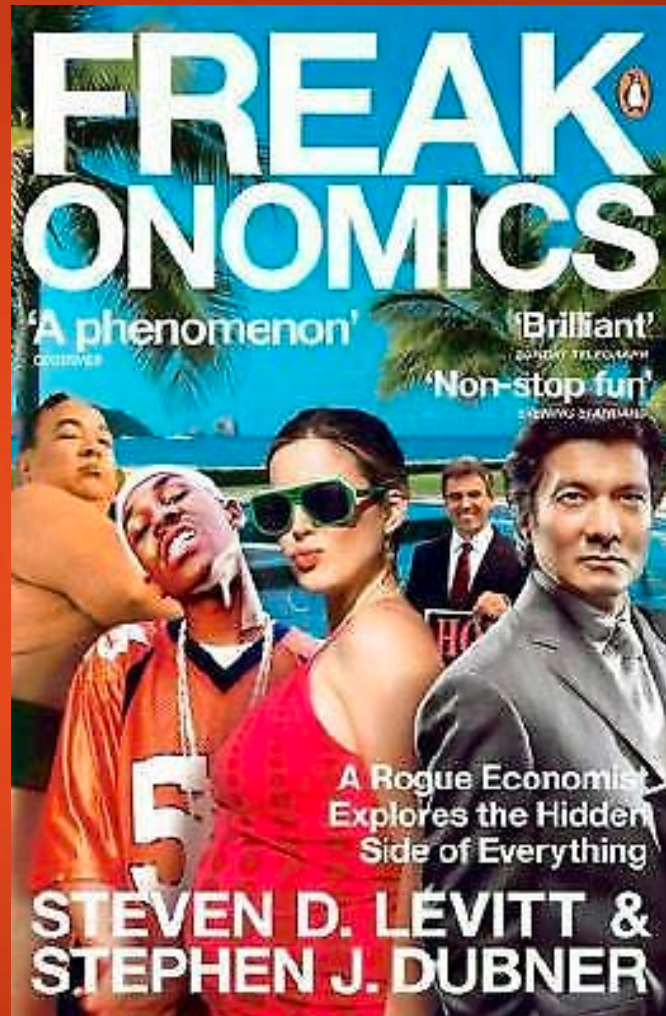
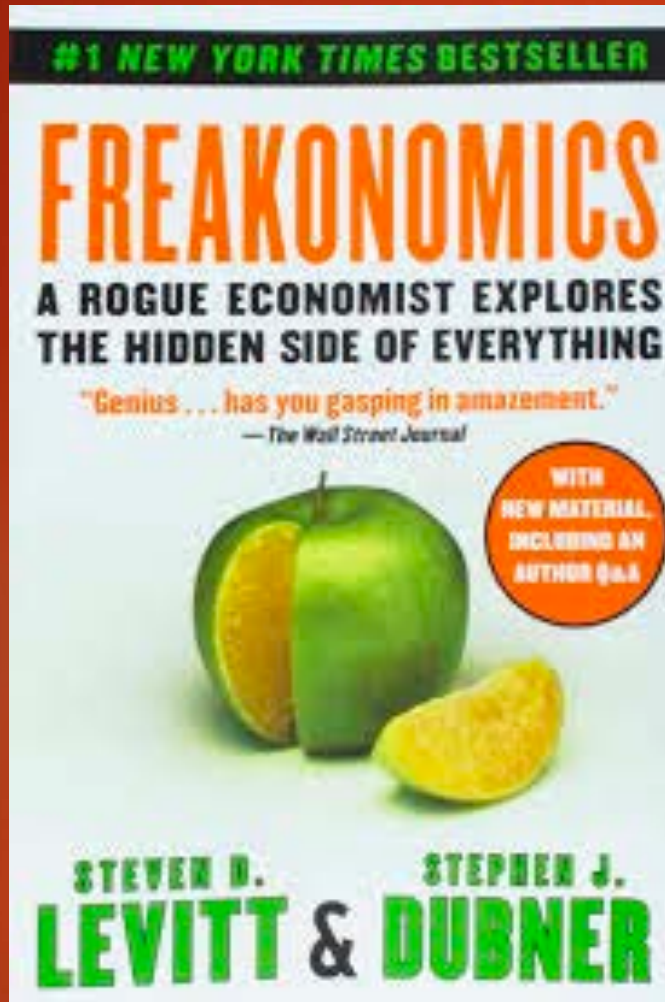
329. The Invisible Paw (Rebroadcast)

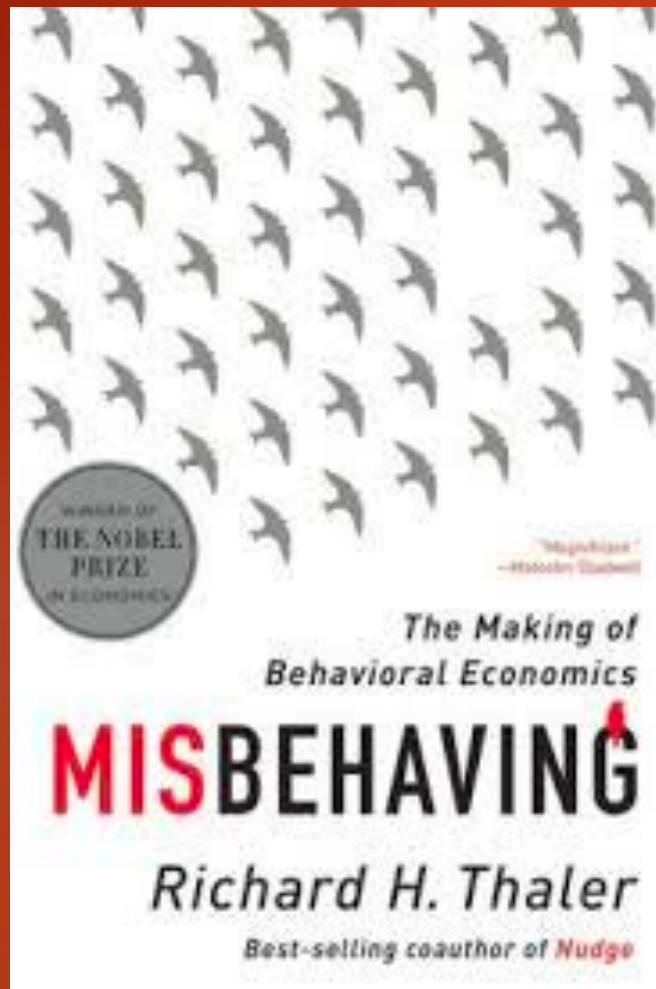
Humans, it has long been thought, are the only animal to engage in economic activity. But what if we've had it exactly backward?

▶ LISTEN · 47:00

+ PLAYLIST







MISBEHAVING BLOG

June 28, 2017

Misbehaving Blog is now part of the Behavioral Scientist

"[We need to] stop people calling everyone who does applied work in this area a behavioral economist. The term we prefer is 'behavioral scientist.'" - Richard Thaler



BUSINESS

Hiring Isn't Rocket Science: Why the Most Boring Strategy Is Best

By Laszlo Bock

To fix the hiring process, we have to replace hubris with heuristics.

WHAT WE'RE READING

Your Questions about the New Adversity Score on the SAT, Answered [↗](#)

GOVERNMENT


Nudge Turns 10: A Special Issue on Behavioral Science in Public Policy

By Editorial Board

September 4, 2018



The ANNALS of the American Academy of Political and Social Science



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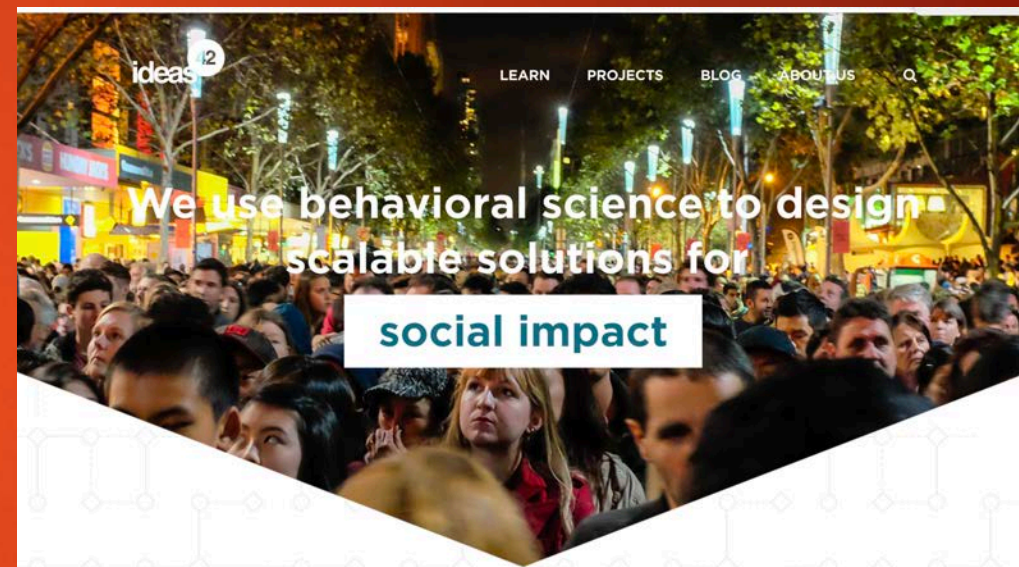
The Role of Behavioral Economics in Evidence-Based Policymaking

[William J. Congdon](#), [Maya Shankar](#)

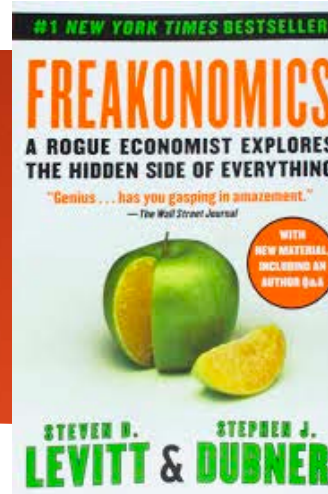
First Published June 18, 2018 | Research Article | [Check for updates](#)

<https://doi.org/10.1177/0002716218777777>

Behavioral economics has come to play an important role in evidence-based policymaking. In September 2015, President Obama signed an executive order directing federal agencies to incorporate insights from behavioral science into federal policies and programs. The order also charged the White House Social and Behavioral Sciences Team (SBST) with supporting this directive. In this article, we highlight the role of behavioral economics and the SBST in the development of evidence-based policy. We also discuss the challenges and prospects for the future, arguing that even as SBST is currently laying the groundwork, behavioral economics continues to gain currency and show promise as an essential element of evidence-based policy.



Freakonomics



Part of the Appeal

“The Riddles of Everyday Life”

“Full of stories that other people like to talk about too”

Levitt’s abiding interests as “cheating, corruption, and crime” (the kind of stuff of TV)

Questioning something people “really care about” and finding a surprising answer, turning over conventional wisdom

“Stripping a layer or two from the surface of modern life and seeing what is happening underneath”

“A novel way of looking, of discerning, of measuring”

More of the appeal

Numbers

Notions of “laws” of human behavior

“Thinking sensibly about how people behave in the real world”

Bringing “class to the masses”

As they say Dupont did with nylon stockings ...

Good Story

Real Estate Agents

Lessons to Offer and Receive?

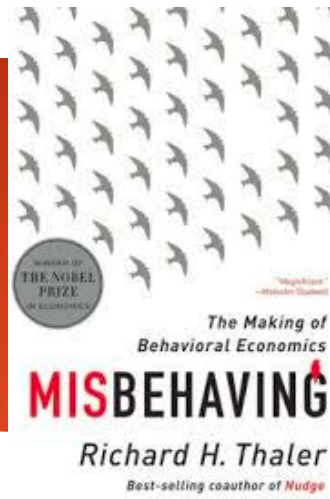
What Anthropologists Could Offer

- ▶ A larger canvas of “human behavior”
- ▶ Social vs. psychological view
- ▶ What Else?

What Anthropologists Could Learn

- ▶ Addressing issues people care about, in ways that are elegantly simple
 - ▶ Not silly, sophisticated, but easy to comprehend and re-tell
- ▶ How else could anthropology “bring class to the mass”?

Misbehaving



Part of the Appeal

Economics + (social) psychology

Beyond the sense of humans as always rational, bringing in emotion and contextual factors :
“Econs vs. Humans”

Looking for theories that actually predict what humans likely to do in human situations (vs. lab experiment + individual interest)

Economics that is beyond Optimization + Equilibrium, bringing in the “supposedly irrelevant factors” (SIFS for short)

More of the appeal

Good marketing advice

if you gauge them at Christmas they won't come back in March”

Some fun rules of thumb

“A good rule to remember is that people who are threatened with big losses and have a chance to break even will be unusually willing to take risks, even if they are normally quite risk adverse. Watch out!”

Fun Facts

People will likely drive across town to save \$10 on a \$20 purchase, but not \$10 on a \$350 purchase...

Good Story

Sunk costs, e.g. gym membership

Opportunity costs, e.g., of drinking that bottle of expensive wine

The upstate NY ski resort story
Includes “norms of fairness”

“Save more tomorrow” as a way of getting people to put more away in retirement savings

Lessons to Offer and Receive?

What Anthropologists Could Offer

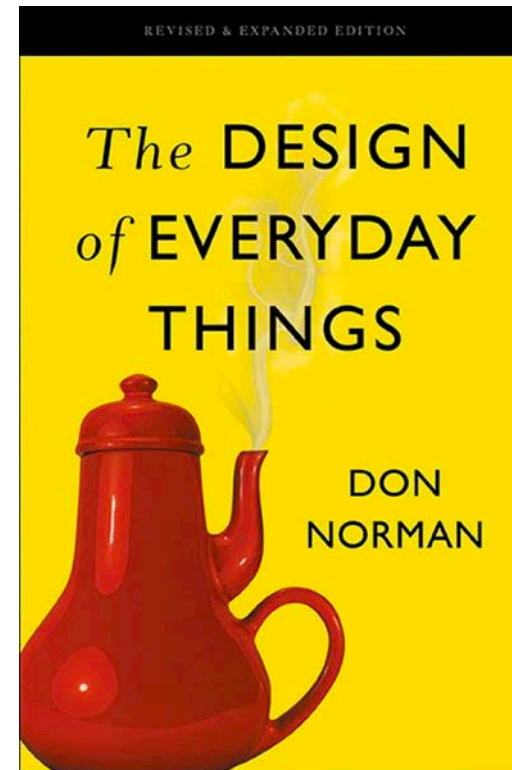
- ▶ Ethnographic research?
- ▶ What subfields/topics of anthropology could be useful?
 - ▶ "When dealing with Humans, words matter."? (pg. 329)
- ▶ How could anthropologists help contribute to thinking "behavioral macroeconomics?"
 - ▶ Thaler indicates that where behavioral economics is not in macroeconomics

What Anthropologists Could Learn

- ▶ Ideas 42 as "the first behavioral economics nonprofit think tank" ... an anthropology think tank?
- ▶ If economics had "theory-induced blindness" by imagining humans as too rational and selfish (optimizing own benefit all the time), where do anthropologists have "theory-induced blindness"?

Behavioral Economics ...

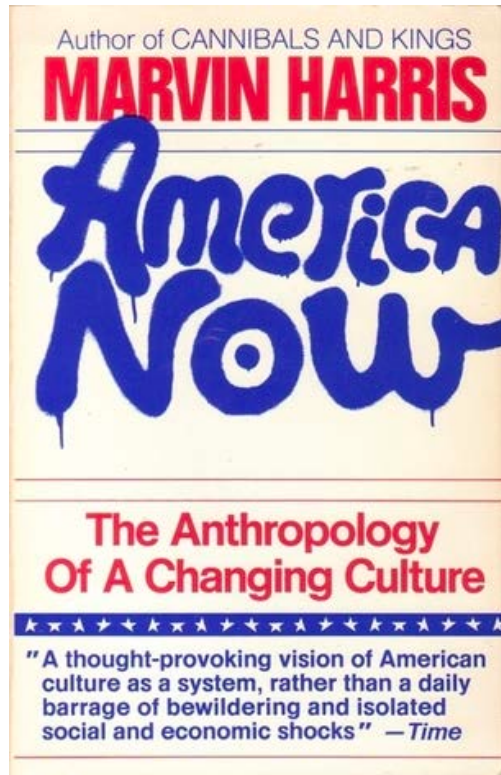
- ▶ Did learn from other fields ...



A Word of Wisdom from Misbehaving

- ▶ “Interdisciplinary meetings, especially those with high-level agendas (reduce poverty, solve climate change) tend to be disappointing, even when the attendees are luminaries, because academics don’t like to talk about research in the abstract – they want to see actual scientific results. But if scientists from one field start presenting their research findings in the manner that the colleagues in their field expect, the scientists from other disciplines are soon overwhelmed by technical details they do not understand, or bored by theoretical exercises they find pointless. (Pg. 179)

How Do We Get Popular?



Business Anthropology needs a prize...

