Mgmt 5800

JUDGMENT AND DECISION MAKING

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Class 1

Introduction to Managerial Decision Making

Reading:
Bazerman & Moore, *Judgment in Managerial Decision Making*, chapter 1
Today’s Topics

1. Anatomy of Decisions
2. System 1 and System 2 Thinking
3. Bounds of Human Rationality
4. Heuristics and Biases
5. Psychology and Ethics
6. Outline of Things to Come
1. Anatomy of Decisions

i. Define Problem

ii. Identify the Criteria

iii. Weight the Criteria

iv. Generate the Alternatives

v. Rate Each Alternative on Each Criterion
Linear Decision Making

Calculating Value of a Decision with 3 criteria:

Score on criterion $X$; \textit{importance} $\alpha$ of that criterion

Score on criterion $Y$; \textit{importance} $\beta$ of that criterion

Score on criterion $Z$; \textit{importance} $\gamma$ of that criterion

Value $= \alpha X + \beta Y + \gamma Z$
2. System 1 and System 2 Thinking

System 1:
Automatic, unconscious, fast, emotional

System 2:
Deliberate, conscious, slow, logical
3. Bounds on Human Rationality

Herbert Simon, “Satisficing”
4. Introduction to Heuristics and Biases

Kahneman and Tversky, “Prospect Theory”
Common Heuristics and Biases

• Availability
• Representativeness
• Positive Hypothesis Testing
• Affect
5. Psychology and Ethics

Solomon Asch’s
Conformity Experiments
Asch’s Conformity Experiments

[Two line drawings showing a line on the left and three lines (A, B, C) on the right]
Asch’s Conformity Experiments
Class Structure and Policies

• Instructor
• Teaching Fellows
• Student Information Sheet
• Web Site and Syllabus
• Facebook
• Expectations
• Clickers / name cards
• Readings
• Exams and Grades
Grades

Midterm - 30%
Final - 50%
Class participation - 20%