

Behavioral Economics in the Real World

Examples of Venues for applying behavioral science in the real world

- Marketing: Pricing strategy etc.
- Organizational management: Employee behavior, employee engagement etc.
- Public policy: Health, Energy, Savings, Tax compliance

Behavioral Economics x Marketing



Small

\$3



Large

\$7



Small

\$3



Medium

\$6.5



Large

\$7

Watch: <https://www.youtube.com/watch?v=33aaQdtD20k>

Read: <https://medium.com/@91.yash/3-case-studies-to-prove-how-psychology-helps-you-read-the-mind-of-your-customers-89c75c91ace0>

Color psychology and Brand building



Use color to communicate who you are





Behavioral Economics x Public policy



Obama Administration: Social and Behavioral Sciences Team



About SBST

Accessing and using programs should be intuitive. Information and choices among program options should be clear. Forms should be simple and easy to complete.

Behavioral science provides us with tools for designing the kind of government Americans deserve.

The Federal government administers a wide array of programs on behalf of the American people: financial aid to assist with college access, social insurance programs and tax incentives to promote retirement security, health insurance programs to ensure access to healthcare and financial protection for families, disclosure requirements to help people obtain safer mortgages, and others.

But Americans can only realize the benefits of these programs if the programs are easy to access, understand, and use. Research from behavioral science demonstrates that seemingly small barriers to engagement, such as pages of unstructured information, burdensome applications, or poorly presented choices, can prevent programs from effectively reaching the people they are intended to serve. An effective and efficient government must, therefore, reflect our best understanding of human behavior — how people engage with, participate in, and respond to policies and programs.

The members of the Social and Behavioral Sciences Team (SBST), a subcommittee of the [National Science and Technology Council](#), represent more than [a dozen organizations](#) across government including the Departments of Defense, Agriculture, Veterans Affairs, Health and Human Services, and Education. A diverse group of civil servants, policymakers, and experts in a variety of fields have

Cameron Administration: Behavioral Insight Team(BIT, Nudge Unit)



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INSIGHTS
TEAM

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**We apply behavioural insights to
inform policy, improve public
services and deliver positive results
for people and communities**

Covid-19 - a behavioural perspective

- How can you use behavioral economics to help design policies that can help with COVID-19 pandemic?



Public policy to combat error

Whys, Ways and Weasels

List of major concepts we have learned

- Bias and Heuristics
- Loss aversion
- Framing
- Probability weighting
- Procrastination
- Projection bias
- Defaults

OVERVIEW

- A major theme in behavioral economics: In some contexts, people make errors that lead them not to behave in their own best interests.
- If so, should policy analysis take such errors into account?
- That is, in addition to the usual considerations, if a policy combats errors, that's good. (And, if a policy exacerbates errors, that's bad.)

OVERVIEW

- Initially, this idea was quite controversial, but it seems to have changed over the past decade.
- Perhaps because recent work is less focused on “combatting errors” and more focused on merely incorporating impact of policy on errors into the calculus of optimal policy.

Some concerns about doing public policy to combat errors

- **How do we know what's best for people?** That is, how do we know what a person's welfare function is?
- **Is it ok to help those who make errors, with the cost imposed on those who do not?**

To **Err** is
Human

What types of interventions are we talking about?

- Restricting choice: prohibit certain actions
- Changing choice: tax/subsidize certain behaviors (changing relative prices)
- Adding choice: create (and enforce) new commitment devices
- Nudges: interventions that shouldn't matter.

Nudge

Improving Decisions about
Health, Wealth, and Happiness

Libertarian Paternalism

By RICHARD H. THALER AND CASS R. SUNSTEIN*

Many economists are libertarians and consider the term “paternalistic” to be derogatory. Most would think that the phrase libertarian paternalism is an oxymoron. The modest goal of this essay is to encourage economists to rethink their views on paternalism. We believe that the anti-paternalistic fervor expressed by many economists is based on a combination of a false assumption and at least two misconceptions. The false assumption is that people always (usually?) make choices that are in their best interest. This claim is either tautological, and therefore uninteresting, or testable. We claim that it is testable and false—indeed, obviously

appears to be paternalistic, which it is, but would anyone advocate options 2 or 3?

The second misconception is that paternalism always involves coercion. As the cafeteria example illustrates, the choice of which order to present food items does not coerce anyone to do anything, yet one might prefer some orders to others on paternalistic grounds. Would many object to putting the fruit before the desserts at an elementary school cafeteria if the outcome were to increase the consumption ratio of apples to Twinkies? Is this question fundamentally different if the customers are adults? If no coercion is involved, we think that some types of pater-

Libertarian Paternalism

- Libertarian Paternalism (Thaler & Sunstein, AER 2003)
- Nudge (Thaler & Sunstein 2008)

Libertarian Paternalism

- Libertarian: people should be free to do what they like
- Paternalism: policymakers should steer people's choices in a way that makes choosers better off, as judged by themselves



Choice Architecture

- Choice Architecture: the context in which people make decisions
- Choice architects: those who organize the context in which people make decisions



Nudge: interventions that shouldn't matter.



- Nudge (Thaler & Sunstein 2008): A nudge is any aspect of the choice architecture that alters behavior in a predictable way without forbidding any options or significantly changing their economic incentives. A nudge must be easy and cheap to avoid. The emphasis is on the availability of choice. Altering people's judgements, decisions and behaviors should not impose significant costs on the chooser in terms of time, social sanctions, effort and such like.

Nudge: interventions that shouldn't matter

- A nudge should allow people to perform rationally in terms of their own self-declared interests.
- It is not for the choice architect to decide what is best for them.



Nudge: interventions that shouldn't matter

- We need to proceed cautiously, because it's hard to:
 - be certain that people are making errors
 - know the prevalence of errors in the population and the severity of errors in the population.
- Hence, one approach is to identify policies that would be helpful for people making errors but mostly irrelevant for rational people.

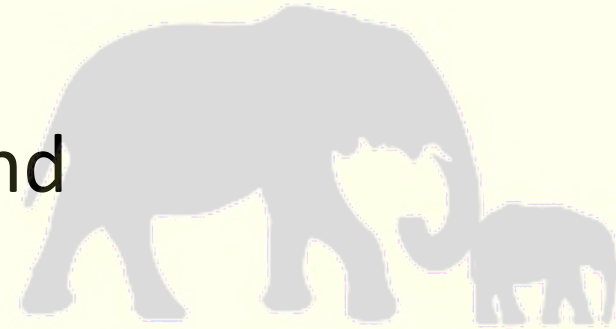
Nudge: interventions that shouldn't matter

- The ideal is a policy that:

- (1.) helps people making errors,

- (2.) has no effect on rational people, and

- (3.) has zero implementation costs.



Smarter lunchroom

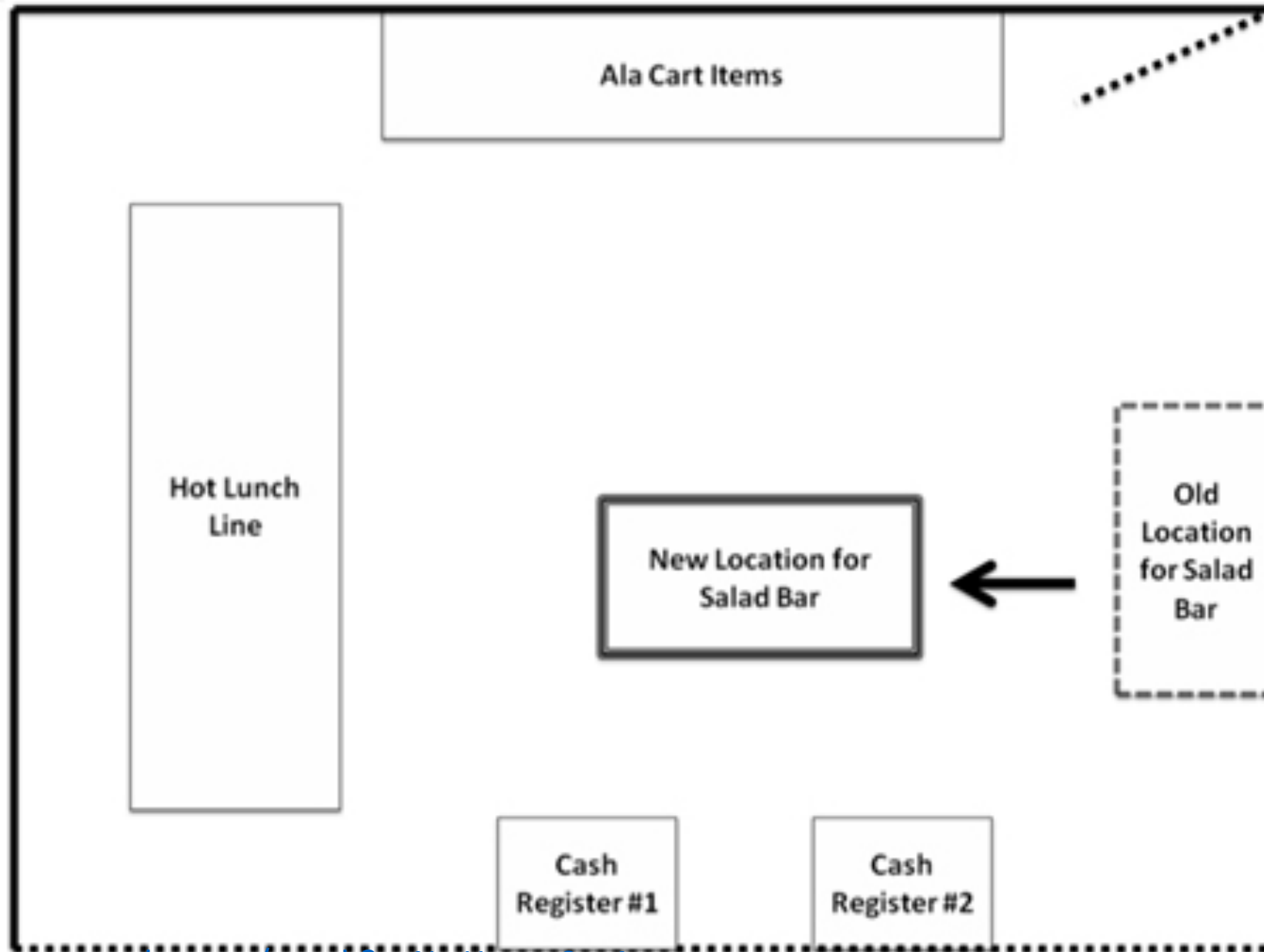
- Nudging and choice architecture are used to increase healthy food choice and consumption in school lunchrooms at low cost.
- Reading:
 - http://www.choicesmagazine.org/UserFiles/file/article_87.pdf
 - <http://www.ben.cornell.edu/smarter-lunchrooms.html>
 - <https://healthy-food-choices-in-schools.extension.org/new-developments-for-school-food-suppliers-to-encourage-healthy-eating-behavioral-economics/>
 - <https://www.fns.usda.gov/nslp>



Smarter lunchroom: examples

- Move the fruit
- Surprising Salad Sales
- Trigger foods: Offer foods that either increase or decrease the selection of fruits, vegetables, or unhealthy sides simply through their presence on the lunch.
- Pre-sliced food: Offered pre sliced foods in serving fruits such as apples.
- Attractive names: Carrot were named X-ray vision carrot vs. food of the day.
- Healthy convenience: Introduced convenience lunch line that contained only healthier food options as well as flavored milk.

Figure 1 Shifting the Location for a Salad Bar Dramatically Lifted Sales



Watch: <https://www.youtube.com/watch?v=NwHennv9vc4>



Unit bias to eat healthier

- Watch <https://www.youtube.com/watch?v=LF4ETgw29BA>

People seem to think that a unit of some entity (with certain constraints) is the appropriate and optimal amount. This heuristic is referred to as unit bias.

Increasing Traffic Safety with Duct Tape



- <https://www.youtube.com/watch?v=tSkkUxzJCNI&t=1s>



Creative nudging stair use

- Watch
- <https://www.youtube.com/watch?v=oL3tYJCZLLs>
- Musical stair:
- <https://www.youtube.com/watch?v=9n5z9LTbakk>



Bathroom urinals in the Amsterdam airport

- “As all women who have ever shared a toilet with a man can attest, men can be especially spacey when it comes to their, er, aim. In the privacy of a home, that may be a mere annoyance. But, in a busy airport restroom used by throngs of travelers each day, the unpleasant effects of bad aim can add up rather quickly. Enter an ingenious economist who worked for Schiphol International Airport in Amsterdam. His idea was to etch an image of a black house fly onto the bowls of the airport’s urinals, just to the left of the drain. The result: Spillage declined 80 percent. It turns out that, if you give men a target, they can’t help but aim at it.”

Read: <https://nudges.wordpress.com/the-amsterdam-urinals/>

