TOPIC: NUDGE

PRESENTED BY : MUHAMMAD ATA UR REHMAN

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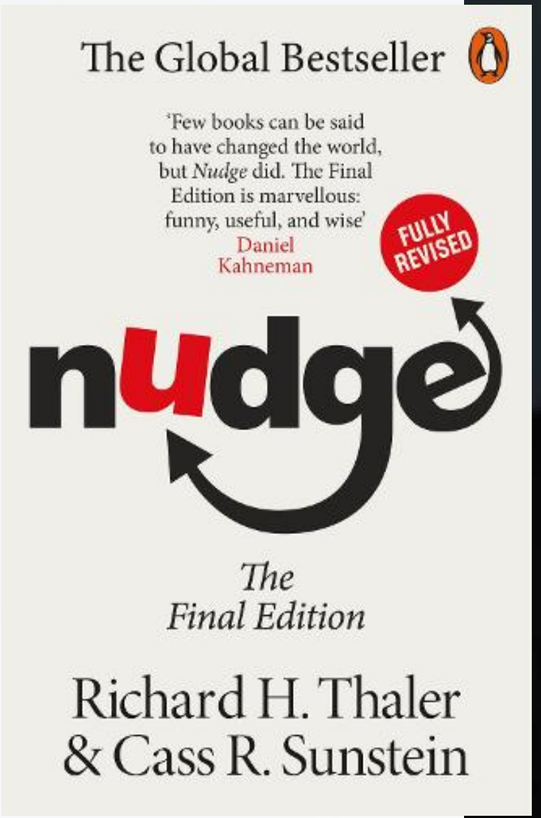
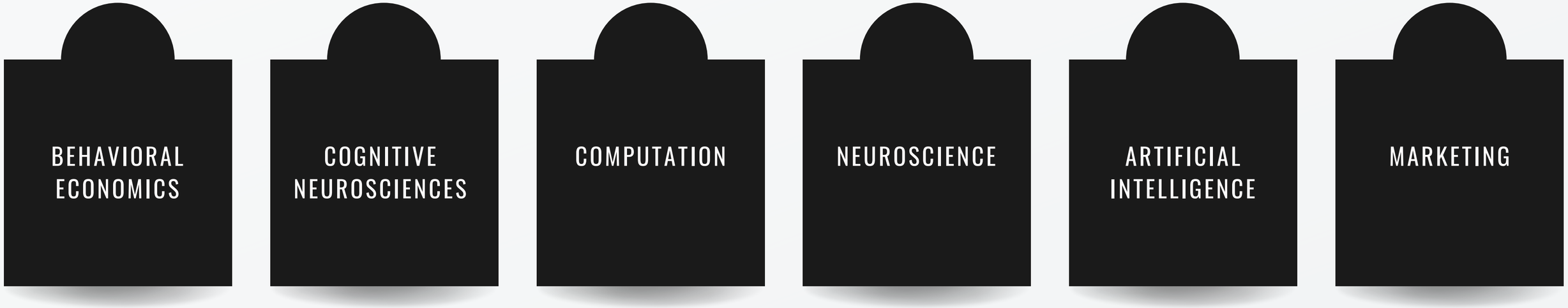
NOBEL PRIZE IN ECONOMICS 2017

"incorporating psychologically realistic assumptions into analyses of economic decision-making. By exploring the consequences of limited rationality, social preferences, and lack of self-control, he has shown how these human traits systematically affect individual decisions as well as market outcomes."



INTERSECTION OF FIELDS



“... ANY ASPECT OF THE CHOICE ARCHITECTURE THAT ALTERS PEOPLE’S BEHAVIOUR IN A PREDICTABLE WAY WITHOUT FORBIDDING ANY OPTIONS OR SIGNIFICANTLY CHANGING THEIR ECONOMIC INCENTIVES”
...ANY SMALL FEATURE IN THE ENVIRONMENT THAT ATTRACT OUR ATTENTION AND AFFECT OUR BEHAVIOR

NUDGE

RESEARCH PAPERS IN ACTION

The Definition of Nudge and Libertarian Paternalism: Does the Hand Fit the Glove?

*Pelle Guldborg Hansen**

In recent years the concepts of 'nudge' and 'libertarian paternalism' have become popular theoretical as well as practical concepts inside as well as outside academia. But in spite of the widespread interest, confusion reigns as to what exactly is to be regarded as a nudge and how the underlying approach to behaviour change relates to libertarian paternalism. This article sets out to improve the clarity and value of the definition of nudge by reconciling it with its theoretical foundations in behavioural economics. In doing so it not only explicates the relationship between nudges and libertarian paternalism, but also clarifies how nudges relate to incentives and information, and may even be consistent with the removal of certain types of choices. In the end we are left with a revised definition of the concept of nudge that allows for consistently categorising behaviour change interventions as such and that places them relative to libertarian paternalism.

RESEARCH PAPERS IN ACTION

ARTICLE

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The precision of value-based choices depends causally on fronto-parietal phase coupling

Rafael Polanía[1,*], Marius Moisa[1,2,*], Alexander Opitz[3,4], Marcus Grueschow[1] & Christian C. Ruff[1]

Which meal would you like today, chicken or pasta? For such value-based choices, organisms must flexibly integrate various types of sensory information about internal states and the environment to transform them into actions. Recent accounts suggest that these choice-relevant processes are mediated by information transfer between functionally specialized but spatially distributed brain regions in parietal and prefrontal cortex; however, it remains unclear whether such fronto-parietal communication is causally involved in guiding value-based choices. We find that transcranially inducing oscillatory desynchronization between the frontopolar and -parietal cortex leads to more inaccurate choices between food rewards while leaving closely matched perceptual decisions unaffected. Computational modelling shows that this exogenous manipulation leads to imprecise value assignments to the choice alternatives. Thus, our study demonstrates that accurate value-based decisions critically involve coherent rhythmic information transfer between fronto-parietal brain areas and establishes an experimental approach to non-invasively manipulate the precision of value-based choices in humans.

RESEARCH PAPERS IN ACTION

eLife

RESEARCH ARTICLE

Novelty and uncertainty differentially drive exploration across development

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Abstract Across the lifespan, individuals frequently choose between exploiting known rewarding options or exploring unknown alternatives. A large body of work has suggested that children may explore more than adults. However, because novelty and reward uncertainty are often correlated, it is unclear how they differentially influence decision-making across development. Here, children, adolescents, and adults (ages 8–27 years, $N = 122$) completed an adapted version of a recently developed value-guided decision-making task that decouples novelty and uncertainty. In line with prior studies, we found that exploration decreased with increasing age. Critically, participants of all ages demonstrated a similar bias to select choice options with greater novelty, whereas aversion to reward uncertainty increased into adulthood. Computational modeling of participant choices revealed that whereas adolescents and adults demonstrated attenuated uncertainty aversion for more novel choice options, children's choices were not influenced by reward uncertainty.

CASE STUDY I

Nudging in an Evolving Marketplace: How Markets Improve Their Own Choice Architecture

Adam C. Smith and Todd J. Zywicki

Introduction

Behavioral economics (BE) and its applied counterpart, behavioral law and economics, are concerned with the nature of choice and how rational a person's decision-making really is. From loss aversion to confirmation bias, behavioral economists assert that people often act in ways that are at odds with what other economists assert to be rational behavior. To counter our supposedly biased predilections, behavioral theorists have urged policy experiments that would consciously alter individuals' "choice architecture"—that is how choices are structured and presented to the consumer—found in the marketplace. By, for example, changing the default choice option, people can be nudged into making different choices that behavioral planners believe will improve their welfare.

To date, BE remains plagued by methodological difficulties that cast doubt upon the validity of many biases. For example, the so-called "endowment effect," which had stood as supposedly one of the most well

CASE STUDY II

Nudges in Health Care

Robert Graboyes and Jessica Carges

Introduction: Slaying Dragons, Swatting Bugs

Nudges are a difficult topic to broach. Compared to other health care topics, they are small and, by nature, non-coercive (or only partially coercive). Almost any nudge, taken in isolation, can seem either reasonable or innocuous or both to those of varying ideological persuasions. It is in the aggregate, or in their secondary effects, where nudges may become expensive and disruptive.

It is an altogether different matter to write about, say, the Food and Drug Administration's (FDA) approval process for life-saving pharmaceuticals. There, the issues are stark. FDA regulations impose the full police powers of the state. People are forbidden to sell, give away, or use certain chemical substances the FDA has not approved.[1] Violators can be fined, arrested, or denied the right to practice their professions. Assuming a drug has been correctly judged unsafe by the FDA, people who used it might suffer grave illness or death.[2] If the FDA has correctly judged another drug to be safe but ineffective, a patient may suffer for using the unapproved drug, rather than an approved (and, presumably safe and effective) drug.[3] On the other hand, patients may suffer or die for lack of a safe, effective drug that the FDA has wrongly

CASE STUDY III

Conclusion: Behavioral Economics and Policy Interventions

Richard Williams

The purpose of this book is to demonstrate that there is a strong private sector that helps people's decision making and that stringent criteria ought to be met before governments attempt to improve on private decision making, whether through structuring information to "nudge" people into making the government-preferred decision or using more stringent measures to achieve the same thing. Where people have difficulty matching their inherent preferences into real life decisions that satisfy those preferences, a private market will almost always arise that can help to match decisions with preferences.

There are two issues related to the use of behavioral economics in policy discussed in this book and they are used without always distinguishing them. The first is how the findings of behavioral economics are used to justify a new policy. One primary justification for government policies, particularly government regulation, has been required by an Executive Order going back nearly two decades that regulations are needed "to interpret the law, or are made necessary by compelling public need, such as material failures of private markets to protect or improve the health and safety of the public, the environment, or the well-being of the American

THEORY

BOUNDED RATIONALITY

CHOICE ARCHITECTURE

LIBERTARIAN PATERNALISM

COMPLEX SYSTEMS

DISTRIBUTED SYSTEMS

LEVEL OF NUDGE

EXAMPLES

Product Placement

Recommender Systems

One Child Policy – China

Pictures on the wall

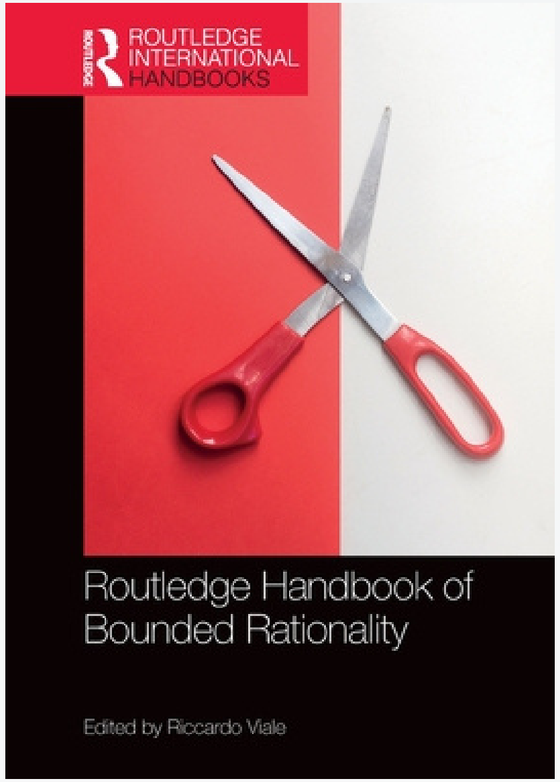
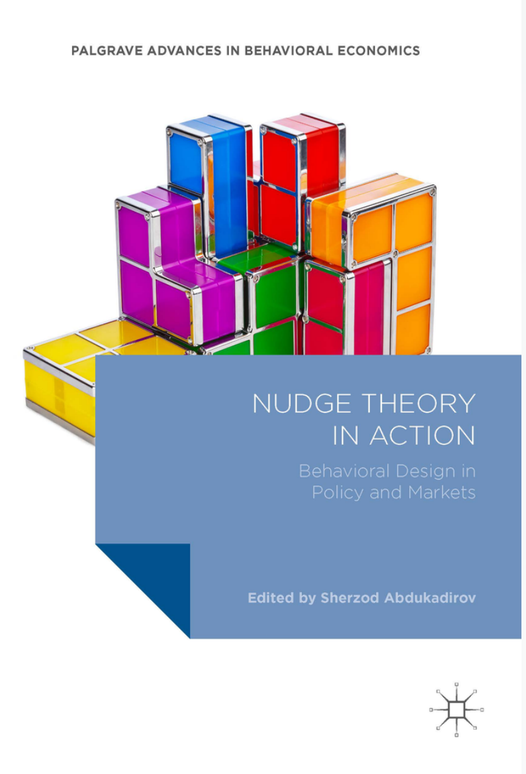
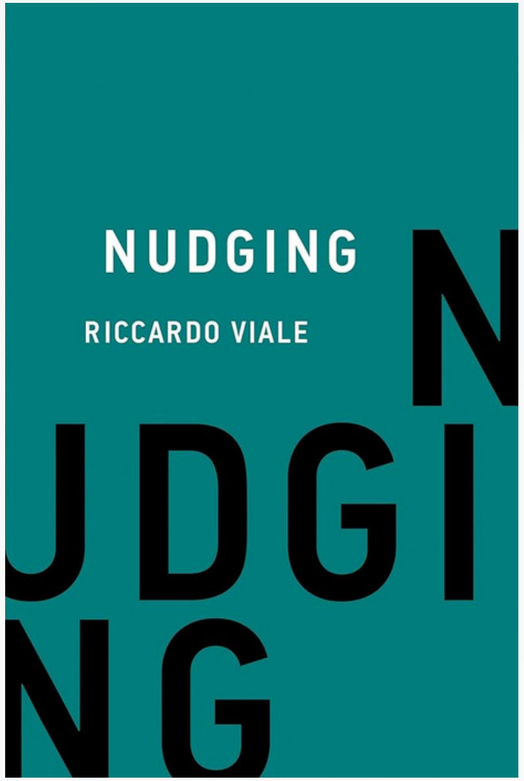
Social Order

Default Option

LIMITATIONS TO NUDGING

- NOT SUSTAINABLE
- NOT SCALABLE
- SHORT-TERM CONDITIONING
- NOT ROBUST

THANK YOU



FEEL FREE TO ASK ANY QUESTIONS