

An Introduction to Behavioral Economics*

STEP 1

RATIONAL AGENTS MAXIMISE UTILITY

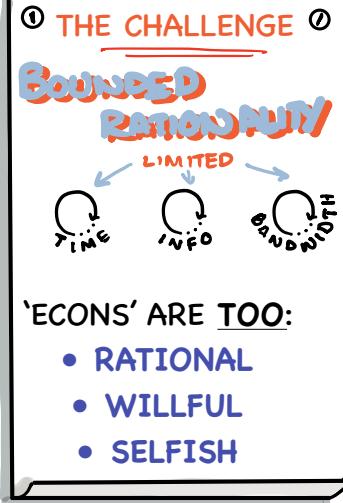


Neoclassical Theory

RATIONAL PREFERENCES!

COMPLETE $x > y; y > z$ OR $y \sim x$ TRANSITIVE $x > y; y > z$ then $x > z$

'Preferences are stable'



Developed for ECON 213 by F SAID (2023)

STEP 2

COMBINING ECONOMICS

PSYCHOLOGY

BEHAVIORAL ECONOMICS

for more realistic theories and predictions.

Behavioral Economics

SYSTEM 1 vs. SYSTEM 2

FAST
REFLEXIVE
IMPULSIVE
SHORTSIGHTED

SLOW
ANALYTIC
EFFORTFUL
DELIBERATE

KAHNEMAN & TVERSKY (1979)

PROSPECT THEORY:

Losses loom larger than gains

HERDING BEHAVIOR

SOCIAL NORMS, WARM GLOW & many others



STATE DEPENDENT PREFERENCES AND SCARCITY



'HUMANS' ARE:

- INTUITIVE DECIDERS
- PRONE TO GENERALIZING
 - USE SYSTEM 1
- WEIGH LOSSES GREATER THAN GAINS
 - IMPATIENT
- CONCERNED ABOUT FAIRNESS AND NORMS
 - ... (and more!)

STEP 3

ECONOMICS
PSYCHOLOGY
COGNITIVE SCIENCE

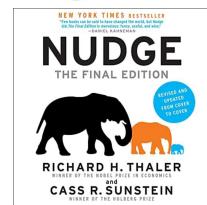
BEHAVIORAL SCIENCE



Letter reminders for paying TAX that invoked social norms increased tax revenue by £200m

The Nudge Revolution

Automatic enrolment in savings program, with option to opt-out increased savings from 3.5 to 13.5% in 3 years.



2020: most employer sponsored pension plans in US have automatic enrolment

Led to world's 1st Nudge Unit in UK in 2010 Now: 200+ units worldwide

NUDGES

Changes in presentation of choices to make people more likely to select particular options, without any coercion.

ISSUES IN NUDGE THEORY

Replication failures



Developed world focus

Paternalism?

STEP 4

ECONOMICS
PSYCHOLOGY
COGNITIVE SCIENCE
EVOLUTIONARY BIOLOGY
ANTHROPOLOGY
NEUROSCIENCE

Behavioral Science

WIDE ARRAY OF APPLICATIONS

including

Corruption
Public health
FINANCIAL BEHAVIOR
SUSTAINABLE DEVELOPMENT
DIVERSITY & EQUALITY
DIGITAL BEHAVIOR

these issues are resolved in

EXPERIMENTS THAT TRY TO UNDERSTAND WHY? WHEN? HOW? DO THINGS VARY?

&
WHAT WORKS IN DIFFERENT CONTEXTS



*From PLANT, MUTHUKRISHNA & SCHIMMELPFENNIG (2022)