**POLICY IMPLICATIONS**

**(subsections inspired by Behavioral Industrial Organization, Handbook of Behavioral Economics, and adding further literature for policies and regulatory concerns)**

**Inadequacy of market solutions**

* Competition and other market-based solutions do not solve the welfare problems created by naiveté-based discrimination. We do not live in a world where everyone is fully rational.
* Advice from intermediaries

? (Not sure about this.)

**Soft Paternalism**

* **Libertarian paternalism** (Thaler and Sunstein, 2003): It induces naïve consumers to make better decisions without interfering with their choices. They are free to choose as they would without the policy
* **Asymmetric paternalism** (Camerer et al., 2003): it helps consumers who make mistakes without hurting others who are choosing optimally
* **Problems:** When the behavior of consumers changes, supply decisions change, so no possibility of *libertarian paternalism*. *Asymmetric paternalism* cannot be achieved because sophisticated consumers are worse off. (Corollary 1.ii. “Sophisticated consumers are worse off in the more sophisticated pool when there is a discrimination.”). Here taking homogeneous distortion in imperfect competition as an example, we can try to compare the welfare of naïve-sophisticated consumers after (perfect) discrimination for different values of alpha.
* **Using “defaults” as a libertarian paternalist tool to nudge consumers**

The idea is that consumers are steered into a default option, hoping to change their behavior without taking the freedom to choose something else. To understand welfare implications, we need to see how these defaults affect consumer decisions or firms’ responses. (Spiegler, 2015; Allcott and Judd, 2019). **[welfare effects of nudging are important here]**

So, the welfare effect depends on the market environment.

As mentioned in the Handbook of Behavioral Economics: “*A second, interrelated, question is why a policymaker would want to restrict herself to libertarian or asymmetric paternalism and refrain from other interventions. In most classical industrial-organization papers, policies are analysed from a total-welfare or perhaps consumer-welfare perspective, implicitly relying on potential Pareto improvements.*

*It is unclear to us why we should shy away from a regulatory intervention in the banking market that would help naive consumers avoid overdraft fees, simply because it reduces the cross-subsidy to more sophisticated consumers (especially in reverse-Robin-Hoodlike equilibria in which the poor cross-subsidize the rich). At least conceptually, a more promising approach to us would specify a welfare function to be maximized, and then look at the optimal regulation that achieves such a goal.*”

This passage makes it clear that if the total welfare does not increase or change by naiveté-based discrimination, there is no reason to ignore regulations that hurt sophisticated consumers but benefit naïve consumers.

**Disclosure and consumer education**

***Effectiveness of education***

It is soft-paternalistic and easily accepted by firms. Disclosure and education may not be effective and change consumer behavior (some citations xxxxx). As mentioned in the book: “*Unfortunately, there is very little academic research on what kinds of education might be helpful to consumers, and we view this as the greatest gap in the literature*

*on the topic. A notable exception is Bar-Gill and Ferrari (2010). They point out that existing disclosure requirements in the US and the EU almost exclusively focus on*

*attributes of the product or contract offered. This kind of disclosure is not helpful for*

*consumers who mispredict their own product use, a frequent mistake in the applications*

*discussed in Sections 2 through 4. For this reason, Bar-Gill and Ferrari (2010) propose*

*extending disclosure requirements to “product-use” information, such as the average*

*monthly payment consumers make for mortgages or the average amount consumers*

*pay in late fees for credit cards. Even better, they argue, is to require firms to disclose*

*individual-level usage information to consumers in markets in which this information*

*is collected anyhow. For example, a credit-card company may be required to disclose*

*how often the individual consumer has paid late, which hopefully helps overcoming*

*“better-than-average” effects.”*

Kiss (2014) shows that advertisement may help overcoming inertia of consumers in auto liability insurance. This may be relevant also for mobile phone charges and benefits. For a new customer, or a customer at the end of their subscription, there are campaigns to reattract them and you don’t get a new deal, when you’re already “gained” by the company. A regulation that forces a shorter term contract or eases the switch between companies would increase the competition and the lower prices for new deals.

**Regulation contracts or firm conduct**

**Modifying classical policy approaches and recommendations**

Allcott, Hunt, and Judd B. Kessler. 2019. "The Welfare Effects of Nudges: A Case Study of Energy Use Social Comparisons." *American Economic Journal: Applied Economics*, 11 (1): 236–76.

Spiegler, R. (2015). On the equilibrium effects of nudging. *The Journal of Legal Studies*, *44*(2), 389-416.

Bar-Gill, Oren, Ferrari, Franco, 2010. Informing consumers about themselves. *Erasmus Law Review 3* (2), 93–119.

Kiss, András, 2014*.* Salience and Switching*. Working Paper.* University of Amsterdam.