



USING BEHAVIOURAL ECONOMICS TO INFORM POLICY

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LIBERTARIAN PATERNALISM

🐦 Behavioural Economists Developing Philosophical Frameworks

- e.g. Thaler and Sunstein's Libertarian Paternalism
- Informs *Nudge*

🐦 Liberty Preserving

Does Not Include *Regulation* or Bans

🐦 Wants to Make Choosers Better-off

As Judged by Their Reflective Selves

🐦 Core of Approach

Behavioural Economic Findings Used to Change Choice Architecture

UNCONSCIOUSNESS

🐦 Nudges: Appeal to Reflexive Cognitive Processes

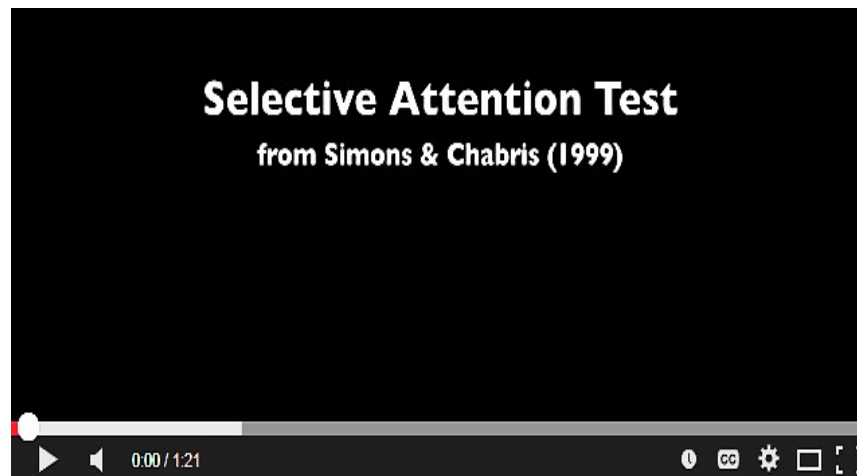
System 1 and System 2

🐦 Does System 1 Lead to Serious Mistakes?

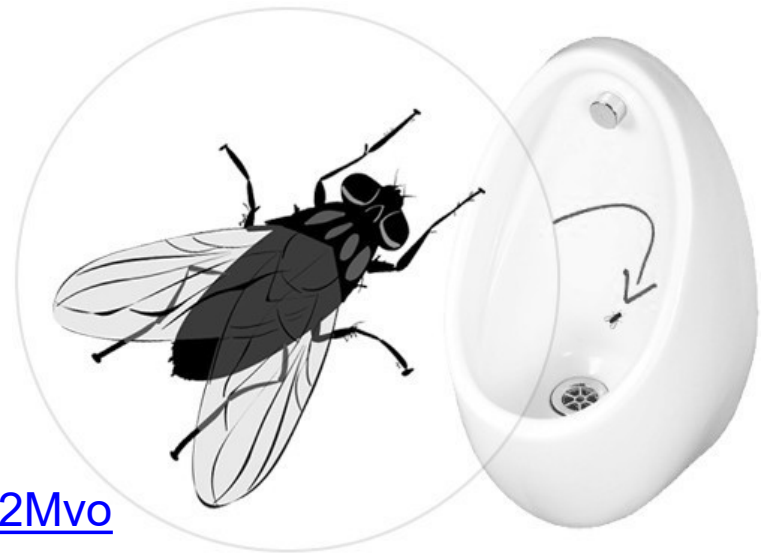
Example: Overemphasis on the Immediate

🐦 System 1 Knowledge Can Inform Policy Design

Note: Getting People to Concentrate Has Mixed Results



<https://www.youtube.com/watch?v=vJG698U2Mvo>



ORIGINAL REQUIREMENTS

For 'Nudge' to be a Nudge

1. Liberty preserving and does not involve regulation or bans
2. Does not significantly change economic incentives
3. Does not involve overt campaigns of information and/or persuasion
4. Informed by findings of behavioural economics



BEHAVIOURAL ECONOMICS?

No Broadly Accepted Definition

🐦 “Box of Tools”



🐦 Set of Observations
That Systematically
Violate Mainstream
Economics

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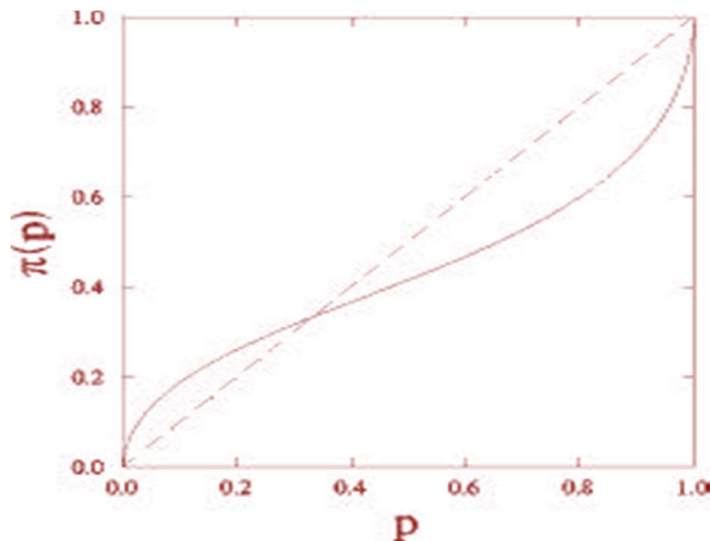
Loss Aversion – Adam Smith

“Pain is, in almost all cases, a more pungent sensation than the opposite and corresponding pleasure. The one almost always depresses us much more below the ordinary, or what may be called the natural state of our happiness, than the other ever raises us above it.

Present Bias – David Hume

“There is no quality in human nature which causes more fatal errors in our conduct than that which leads us to prefer whatever is present to the distant and remote.

🐒 Probability Weighting



🐒 Fairness in Ultimatum Games



<http://www.youtube.com/watch?v=ePgC91kcmN0>

PURPORTED NUDGES

Attracted Interest From Policy Makers

Probably Foremost (Behavioural Insights Team)

- Health
- Personal energy saving
- Reducing tax fraud

Changing Default

- Prompted choice for organ donation
- Opting out of corporate pension plans

PURPORTED NUDGES

Manipulation of the Reference Point

- Highlighting benchmarks
 - Good behaviour
 - Smart metres
 - Tax payments
- Public reporting of behaviour

PURPORTED NUDGES

Applications of Incentives

- Nintendo points for diabetic kids
- 'Holidays' from tax payments
- *LazyTown*

Any behavioural economics in these?

All too 'gimmicky'?

<http://www.youtube.com/watch?v=2lXh2n0aPyw>

Behavioural Public Policy

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CAMBRIDGE

THANK YOU

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