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Nudge



Improving Decisions
About Health, Wealth,
and Happiness

Goals and Objectives

- Apply the techniques of the psychology of decision making and behavioral economics to improve decisions without limited choices.
- Offer an approach new approach to public policy that is neither left nor right.



What is Behavioral Economics

“The phrase behavioral economics appears to be a pleonasm. What non-behavioral economics can we contrast with it? The answer to this question is found in the specific assumptions about human behavior that are made in neoclassical economic theory.”

Herb Simon



Assumptions of Behavioral Economics

- Humans vs. Econs
- Bounded Rationality
 - including bounded attention
- Bounded Willpower
- Bounded Self-interest
- Bounded Markets



Are Markets Efficient?



One Approach to Policy: Libertarian Paternalism

Both terms are currently unpopular (at least in the US), and seemingly contradictory. But, neither concept should be controversial:

- *Libertarian*: protect the individual's right to choose
- *Paternalism*: do what you can to improve the welfare of people

And it is possible to achieve these goals with better **choice architecture**.



Choice Architecture

Anyone who designs the environment in which people make choices is a choice architect

- Menus
- Store layouts
- Curriculum



What is the alternative?

Choice architects must choose *some* set of institutional arrangements. What design should planners pick?

Example: cafeteria menu planning—in what manner (order, salience..) should the food be presented?

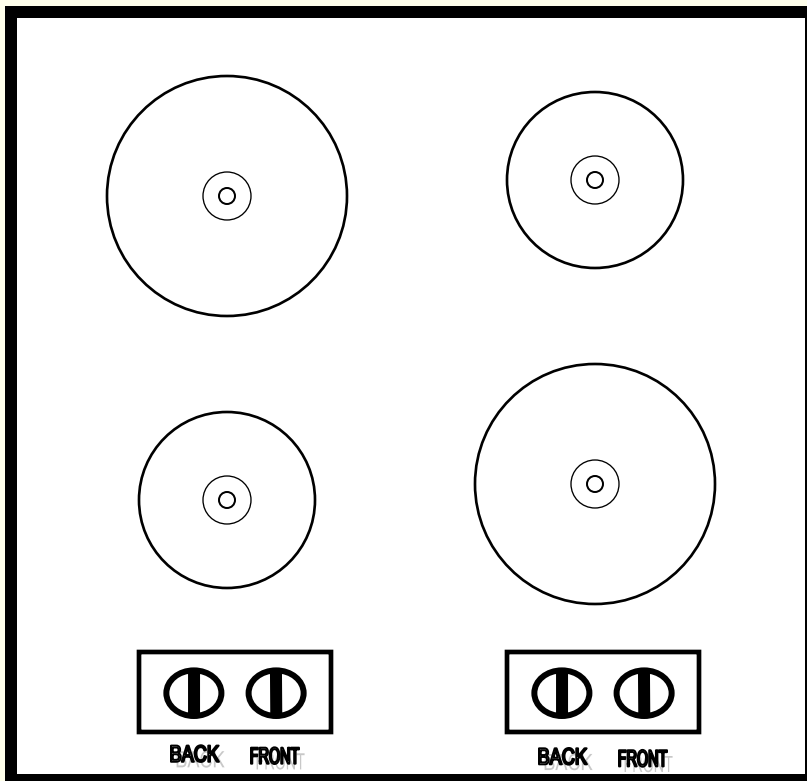
- The plan that make participants better off?
- The options that make the participants worse off? (e.g., fattest?)
- Random?
- The options that make the director best off?

Note that **some** choice has to be made.

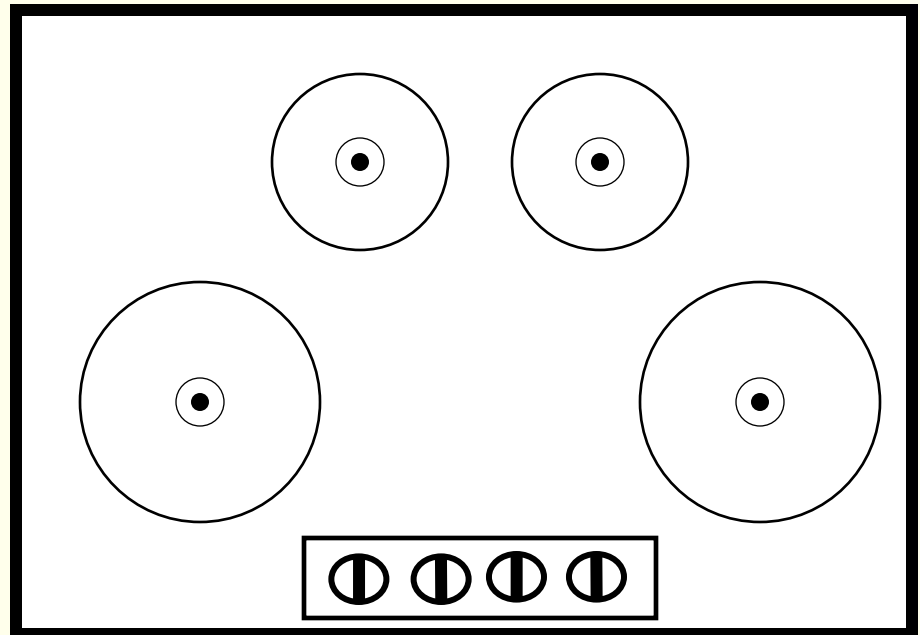


Some Designs are Better

Bad Design



Good Design



Urinal, Amsterdam Airport



Detail of Fly Painted on Urinal



Results: 80% less “spillage”



Principles of Good Choice Architecture

- **Defaults**
- **Expect Error**
- **Give Feedback**
- Understand Mappings
- Structure Complex Choices
- Incentives



Defaults: Padding the Path of Least Resistance

- What happens when people do nothing?
- Computer settings
- TV schedule
- Main lesson: defaults are sticky



Application: Retirement Savings

- Automatic Enrollment
 - Changes the Default
 - Increases and speeds the participation rate
- Downside: default savings levels and investments are taken as “suggestions”.



Give Feedback

- Give users information on how they are progressing toward their goal.
- Pink Ceiling Paint



Give Feedback (cont.)

Ambient Orb (Clive Thompson, 2007)

A little ball that glows red when people are using lots of energy, but green when their use is modest. In a period of weeks, users of the Orb reduced their use of energy, in peak periods, by 40 percent.



Expect Error

- Paris Subway vs. Chicago Parking
- Email attachments. Rudeness warnings.
- Save More Tomorrow



RECAP:

Record, Evaluate and Compare Alternative Prices

- Electronic, downloadable information.
 - Price formulas
 - Usage information
- Applications
 - Credit Cards
 - Mortgages
 - Medicare Part D



Medicare Prescription Drug Plan

- 50+ plans per state
- Web site offering “help”
- Default for “dual eligibles”?
- Maine: intelligent assignment



Markets Über Alles

- Won't markets “solve” the problems caused by bounded rationality and willpower?
- Catering vs. Teaching
 - Flight insurance
 - Mortgages



Objections

- Planners are boundedly rational too, and if they are government employees, may be captured by the political process.
- Slippery Slopes--first you use automatic enrollment, next thing you have prohibition.



Conclusions

Humans are imperfect. We need all the help we can get.

It is possible to improve choices without restricting options.

Don't use bans and mandates--just **nudge**.



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