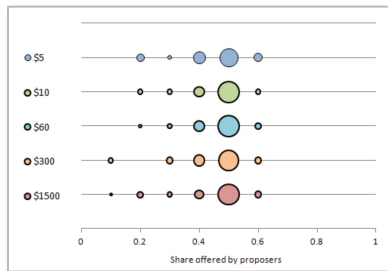


# The Era of Behavioural Economics

Barry Childs



The ultimatum game

1982



Nobel prize for  
non cooperative  
games

1994



Nobel prize for  
Daniel Kahneman  
and Vernon L  
Smith

2002

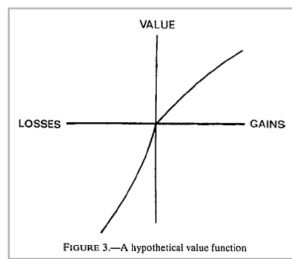


Nobel prize for  
Richard Thaler

2017

1979

Prospect Theory



1985

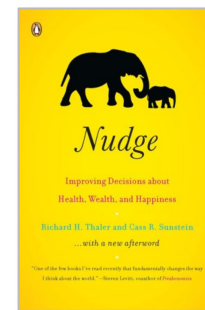
Mental accounting

1995

First handbook of  
experimental  
economics

2009

*Nudge* makes the  
headlines



RICHARD H. THALER  
WINNER OF THE NOBEL PRIZE IN ECONOMICS  
and CASS R. SUNSTEIN



## Nudge

NEW YORK TIMES Bestseller

Improving Decisions About  
Health, Wealth, and Happiness

"One of the few books... that fundamentally changes the way I think  
about the world." —Steven D. Levitt, coauthor of FREAKONOMICS

## Behavioural Economics Saved My Dog

'Addictive and  
life-changing'  
Tim Harford



DAN ARIELY

Author of the international bestseller Predictably Irrational

REVISED AND EXPANDED EDITION

NEW YORK  
TIMES  
BESTSELLER

## PREDICTABLY IRRATIONAL

The Hidden Forces That Shape Our Decisions

DAN ARIELY

NEW YORK TIMES BESTSELLER

## THE (HONEST) TRUTH ABOUT DISHONESTY

HOW WE LIE  
TO EVERYONE—  
ESPECIALLY  
OURSELVES

WITH A NEW CHAPTER FROM THE AUTHOR

DAN ARIELY

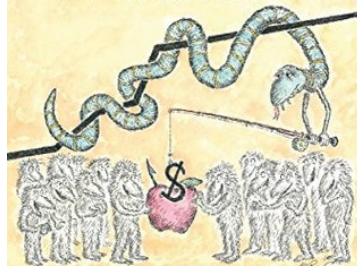
AUTHOR OF PREDICTABLY IRRATIONAL



"Outstanding."  
—New York Times

## PHISHING FOR PHOOLS

The ECONOMICS of  
MANIPULATION & DECEPTION



GEORGE A. AKERLOF  
and  
ROBERT J. SHILLER



## MISBEHAVING

The Making of Behavioural Economics

Richard H. Thaler  
Bestselling co-author of **nudge**

'Wildly disruptive'  
MICHAEL LEWIS

THE NEW YORK TIMES BESTSELLER

THINKING,  
FAST AND SLOW



DANIEL  
KAHNEMAN

WINNER OF THE NOBEL PRIZE IN ECONOMICS

"[A] masterpiece... This is one of the greatest and most engaging collections of  
insights into the human mind I have read." —WILLIAM BARTLEY, Financial Times

## DAN ARIELY

New York Times Bestselling Author of Predictably Irrational

## THE UPSIDE OF IRRATIONALITY

The Unexpected Benefits  
of Defying Logic  
at Work and at Home

#1 New York Times Best-selling Author

MICHAEL  
LEWIS



THE  
UNDOING  
PROJECT

A Friendship that Changed Our Minds

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THE  
WHY  
Hidden Motives and the Undiscovered  
Economics of Everyday Life

URI GNEEZY  
and JOHN A. LIST

AXIS

"Three trailblazers in one of the greatest innovations in economics of the last fifty years."  
—from the Foreword by STEVEN D. LEVITT, coauthor of FREAKONOMICS



# Becoming mainstream thinking

THE  
BEHAVIOURAL  
INSIGHTS TEAM ♦

IN PARTNERSHIP WITH  Cabinet Office

**sbst.gov**

SOCIAL AND BEHAVIORAL SCIENCES TEAM

**Harvard  
Business  
Review**

RECESSION

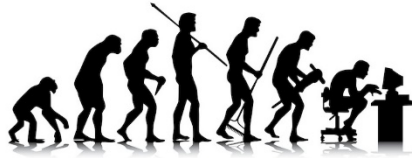
## The End of Rational Economics

by Dan Ariely

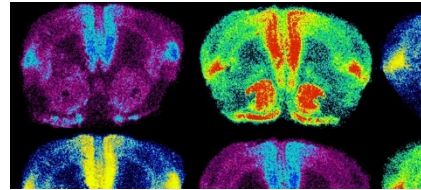
FROM THE JULY-AUGUST 2009 ISSUE

## Shaped by converging disciplines

# Evolutionary biology



# Neuroscience



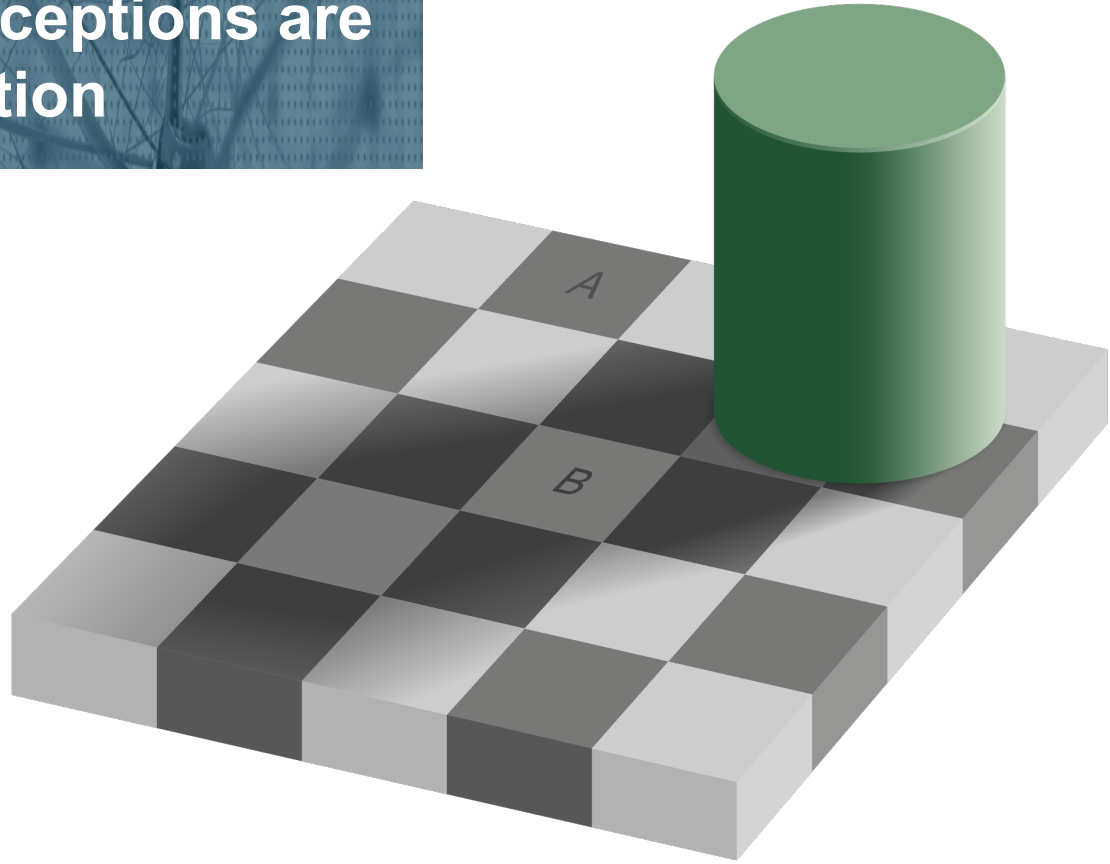
# Economics



# Psychology



**Our physical perceptions are  
subject to distortion**



# Battle of the species

## Econs



Planners  
Rational  
Predictable  
Consistent  
Easy to model with  
simplified math

VS

## Humans



Does  
Rational?  
Unpredictable  
Inconsistent  
Hard to model (need to  
experiment)

# Anchoring



5 bedroom house for sale in Midstream Estate

Prices offered for goods and services are influenced by the *suggested* price.

The effect is sustained even when participants are made aware of the phenomenon.

What is a fair price?



# Overconfidence



People tend to overrate  
their own abilities,  
especially professionals,  
in terms of skills and  
knowledge.

Is your driving better than average?

# Hyperbolic Discounting



now

or



in 6 months  
from now

People tend to discount  
the future too sharply and  
would prefer the R100  
now versus the R200 in a  
month (a return of 300%  
per annum)



# Accumulation effect



Easy to let it slip bit by bit, not noticing long term deterioration when enjoying short term satisfaction

People tend to underestimate the cumulative effect of their actions



Putting in the work can be hard in the short term and results take a while to pay off



# BEHAVIOURAL BIAS CHEAT SHEET

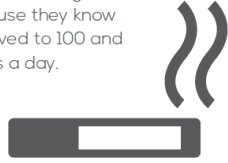
## 1. ANCHORING BIAS

People are **over-reliant** on the first piece of information they hear. In a salary negotiation, whoever makes the first offer establishes a range of reasonable possibilities in each person's mind.



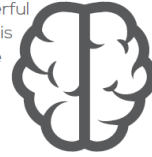
## 2. AVAILABILITY HEURISTIC

People **overestimate** the importance of information that is available to them. A person might argue that smoking is not unhealthy because they know someone who lived to 100 and smoked 3 packs a day.



## 3. BANDWAGON EFFECT

The probability of one person adopting a belief increases based on the number of people who hold that belief. This is a powerful form of **group-think** and is reason why meetings are often unproductive.



## 4. BLIND-SPOT BIAS

**Failing to recognize** your own cognitive biases is a bias in itself. People notice cognitive and motivational biases much more in others than in themselves.



## 5. CHOICE-SUPPORTIVE BIAS

When you choose something, you tend to feel positive about it, **even if that choice has flaws**. Like how you think your dog is awesome – even if it bites people every once in a while.



## 6. CLUSTERING ILLUSION

This is the tendency to **see patterns in random events**. It is key to various gambling fallacies, like the idea that red is more or less likely to turn up on a roulette table after a string of reds.



## 7. CONFIRMATION BIAS

We tend to listen only to information that confirms our **preconceptions** – one of the many reasons it's so hard to have an intelligent conversation about climate change.



## 8. CONSERVATISM BIAS

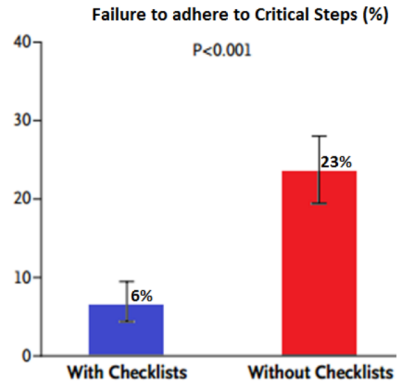
Where people favor prior evidence over new evidence or information that has emerged. People were **slow to accept** that the Earth was round because they maintained their earlier understanding that the planet was flat.





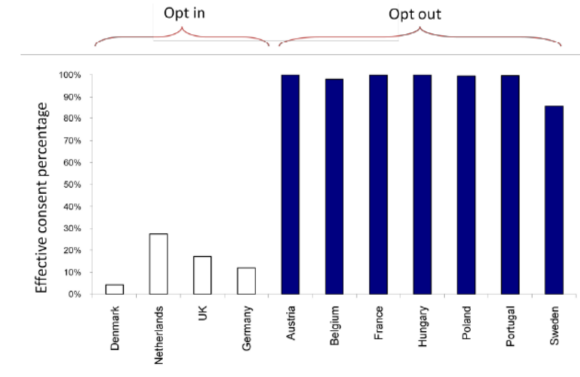
# Health policy examples

Arriaga et al. (2013), Simulation-Based Trial of Surgical-Crisis Checklists, New England Journal of Medicine



The efficacy of checklists in surgery for reducing patient complications. These checklists describe critical processes of care that many operating rooms typically implement from memory.

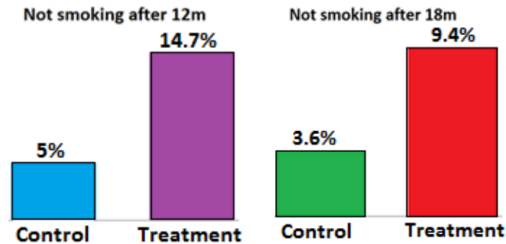
Johnson & Goldstein (2003), *Do Defaults Save Lives?*, Science, Vol. 302



Organ donation rates differ significantly based on opt-in / opt-out policies.

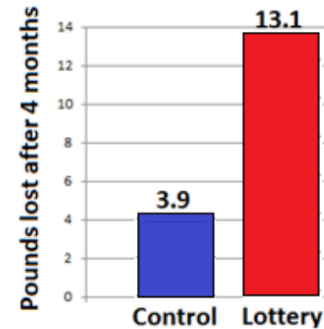
# Changing lifestyle behaviours

Volpp et al. (2009), A randomized, controlled trial of financial incentives for smoking cessation, New England Journal of Medicine



General Electric RCT study ran a program to get employees to stop smoking. Treatment groups received cash for quitting for 12 and 18 months.

Volpp et al. (2008), Financial Incentive-Based Approaches for Weight Loss: A Randomized Trial, Journal of the American Medical Association



Members entered into daily lottery for submitting weight. Prizes differentiated by weight loss goals achieved. If not achieved, informed what they could have won.

# Take home themes

Useful to incorporate behavioural science thinking into broad range of insurance and policy issues

Benefit Design

Fraud prevention

Underwriting

Disease management

Wellness programs

Financial planning

Spending

New tool sets to put to use

Incentives

Loss aversion

Defaulting

Nudges

Framing

# Key lessons to remember (MINDSPACE)

M  
I  
N  
D  
S  
P  
A  
C  
E

Messenger

We are influenced by who conveys the message

Incentives

People respond to incentives, in particular loss aversion

Norms

People are influenced by perceptions of what others do

Defaults

People are heavily influenced by default options

Salience

People are influenced by what is new and visible

Priming

People can be influenced by subconscious cues

Affect

Emotions shape decisions

Commitment

Pre-commitment devices help with time dependent decisions

Ego

People act in ways that make them feel better about themselves



**THANK  
YOU**