

Main principles of Behavioural Economics

People are mainly impulsive thinkers, who don't like change, and find it an effort to process complex information, so they use short cuts to make decisions:

- Take the default, use habits
- Do what others do/ follow social norms
- Choose on the basis of transient emotions or cognitive ease
- Use the principle of avoiding loss
- Prioritise rewards in the near future over more distant rewards
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People of course do deliberate rationally over some choices, but even here:

- The process is relatively slow and uses up energy and self-control
- Inputs into the decision-making process are selectively chosen
- They are prone to certain logical and statistical fallacies

In addition, people consistently over or under-estimate themselves and others in certain ways

- They need to maintain a self-image of rationality, competence, goodness, and morality and therefore will post- rationalise when they do not act in accordance with the image
- They underestimate the degree to which they are influenced by others and like to take credit for good decisions, while blaming others for poor decisions
- They rate themselves as above average on many skills and abilities

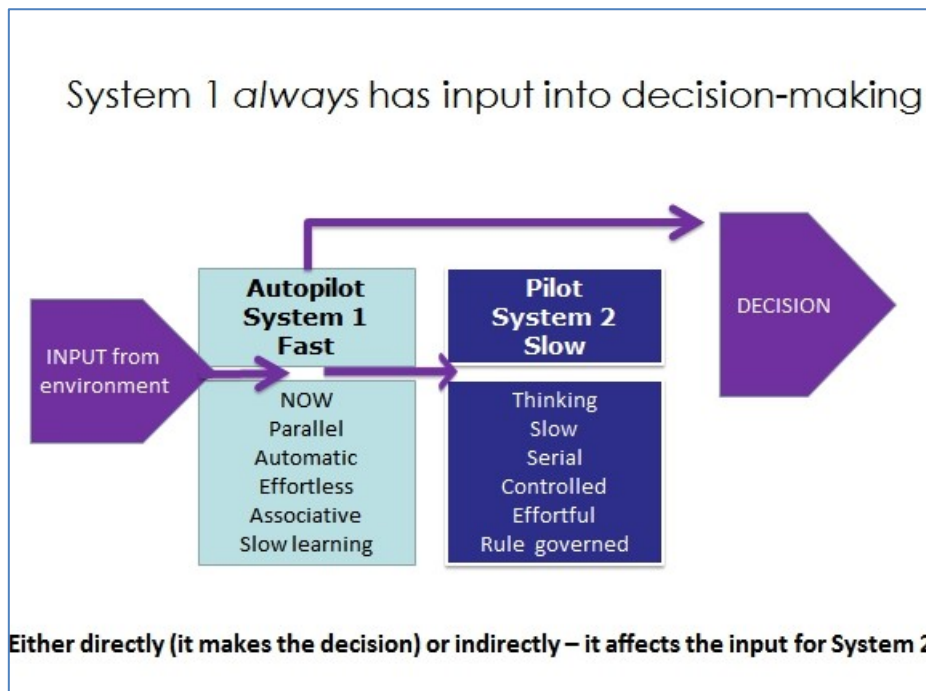


Behaviour can be subtly changed ('nudged') by making adjustments to contexts, environments, layouts, processes and the way in which ideas are framed.

<http://www.instituteforgovernment.org.uk/our-work/better-policy-making/mindspace-behavioural-economics>

Financial research is an area in which many cognitive biases apply and this document from the Financial Conduct Authority is a good review:

<https://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-1.pdf>



Summaries of the research implications

Cognitive/ environment	Implications
System 1 and 2 Thinking	<p>More ways of accessing intuitive, in the moment research: Observational, mobile, projectives, IAT</p> <p>Give people time constraints to simulate real world choices pay attention to spontaneous responses</p>
Cognitive ease	<p>Match the research mood to the decision-making process being researched When info is presented – does it feel right, does it easily make sense</p>
Ego depletion	<p>Over-work, stress, fatigue, lead to impulsive behaviour – there are limits to self-regulation when under cognitive strain Don't overdo topic guides, look for signs of strain in major decision making processes Anticipate effect of overloaded client briefs and be confident to push back and challenge</p>
Selective attn. and confirmation bias	<p>There are a lot of things people do NOT notice; they do notice stuff that confirms their view Pay attention to what might be influencing selective attention e.g. brand usage, existing attitudinal stance</p>
Frames: Define the discourse /competitive set,	<p>Create the playing field / discourse through choice of vocabulary and creating issues and oppositions. Challenge the frame: 'Is that a useful question?' 'Is</p>

<p>Frame as gains or losses,</p> <p>Different descriptions of highlight different aspects of the outcomes</p>	<p>there another way of talking about this?</p> <p>opt out or opt in, win or lose</p> <p>Gamification is reframing – more interesting questions get more interesting answers</p> <p>Stimulus material /concepts often frames different outcomes</p>
<p>Habits</p>	<p>Can be deconstructed into components in order to change; need methods and techniques for careful observation.</p>



Decision-making	Implications
Anchoring	Look for relevant anchors, avoid creating them unwittingly in discussion guide
Availability bias/ salience	If it comes to mind easily, people think it must be important Needs to be spontaneously covered at the start
Priming	Avoid it happening accidentally through recruiting, questioning or nonverbal cues, etc. Be careful about the venue for research and what primes it might hold. Avoid order effects in guides

Difficulties comparing dissimilar options / ambiguity aversion	Advise client before research Help to clarify for respondents
Loss aversion – work harder to avoid a loss than to gain same amount	Avoiding a loss can be a powerful motivation Review stimulus carefully for any perceptions of loss Notice it in A & I Notice it as influencing the client’s agenda
Status quo /default option	Sometimes there is an implicit default in the way information is presented Check out default option – what would you do if there wasn’t this choice?
Hyperbolic discounting Prefer an instant reward rather than wait for a larger reward.	A notable effect in many areas from dieting to financial products
Sunk cost effect	Note if people have already invested a lot of time and money in one option
Choice architecture	Organise the context in which people make decisions; including options for least effort, clear explanations, incentives and feedback on what others do or think
Cognitive dissonance Mismatch between perception of self as sensible, competent, rational, moral person and an expressed attitude or behaviour	The discomfort and tension will be reduced by: Minimising or discounting the behaviour, misremembering, self-justifying or blaming. Often appears post-purchase as a justification for behaviour and may result in a distorted account of the value of the purchase. If it cannot be challenged, make allowances for it in interpretation.
Optimising, Satisficing, Maximax, Maximin	Range of well-known purchase heuristics
Choice overload	Don’t put in 30 concepts! Don’t just recommend the respondents need more information in order to make a decision. Too much information will give them overload. Also recommend ways of making the decision easier. Challenge clients who want to overload the research.



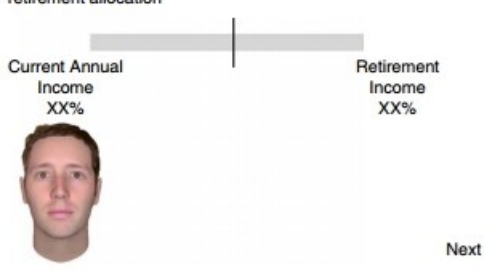
The sunk cost effect

Future prediction	Implications
Hot cold empathy gap – underestimate the effect of hunger, thirst, pain, arousal etc.	Use techniques to get people closer to the emotional state in which the behaviour will happen
Restraint bias – illusion of self-restraint means they miscalculate the temptation	Design choice architecture of stronger self-control strategies
Optimism effect	Make allowances for overestimates of chances of success in future commitments Use challenges in questioning and discussion
Gamblers fallacy – odds for something with a fixed probability will increase or decrease according to recent circumstances	Failure to understand statistical independence Look out for it when researching anything to do with luck, chance, lotteries etc.
Current self versus future self	Focus on the present means people feel dislocated from the future self, so it's necessary to make the future self more vivid and salient
Overestimate recovery time /ability from serious events	People imagine major life events – divorce, job loss, illness as more negative and damaging than they really are.

THE CURRENT SELF (TOP) AND FUTURE SELF (BOTTOM)
CONDITIONS OF STUDY 3A

Please use the scale below to indicate your preferred retirement allocation

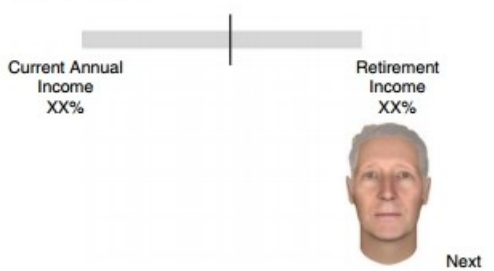
Current Annual Income XX% Retirement Income XX%



Next

Please use the scale below to indicate your preferred retirement allocation

Current Annual Income XX% Retirement Income XX%



Next

One way of helping to overcome the future self issue is to use technology to 'age' the avatar of the respondent.

[http://www.dangoldstein.com/papers/Hershfield_Goldstein et al Increasing Saving Behavior Age Progressed Renderings Future Self.pdf](http://www.dangoldstein.com/papers/Hershfield_Goldstein_et_al_Increasing_Saving_Behavior_Age_Progressed_Renderings_Future_Self.pdf)

Social influences	Implications
<p>Social norms Social proof – do what others are doing/ is expected Social reference points; behaviour is relative to what others do</p>	<p>Ask more questions about what is socially expected – what do they think most people will do?</p> <p>Strategies of persuasion by showing /telling what others are doing, giving feedback on how people relate to the 'norm'</p>
<p>Authority</p>	<p>Examine the nature of the authority and credibility of the information giver</p>
<p>In-group bias- we have positive views of people in 'our' group and give them preferential treatment. (This works because we build our self-esteem through belonging).</p>	<p>Watch for in and out group language, perceived/ desired similarity to key reference groups</p> <p>Communications from or about people who are similar to us have more effect.</p>
<p>False consensus - we tend to overestimate the degree to which our own behaviour, attitudes, beliefs, and so on is shared by other people.</p>	<p>Comment and challenge where it's an important rationale for a behaviour</p>
<p>Public commitment</p>	<p>A commitment made publicly is more likely to be honoured</p>
<p>Reciprocity – people feel obliged to respond to a gift or a positive action</p>	<p>A small gift can often be the first step on a ladder of commitment. However people often rubbish this idea in groups.</p>
<p>Self-serving bias – what is beneficial to the self is fair to others. Also attribute success to self; failure to others.</p>	<p>Causes difficulty in reaching agreements in negotiations</p>
<p>Illusory superiority – the above average effect</p>	<p>People overestimate their ability and competence – 90% think they are above average. Bear in mind in interpretation.</p>



Social norms posters are being tested in US universities to counter mistaken perceptions of what students should be doing!

<http://www.socialnormsresources.org/>