

Priming

- Our behaviour by cues that work subconsciously and prime us to behave / choose in certain ways
- Examples of priming to change behaviour:
 - Playing of certain types of music in a shopping mall / priming through aroma
 - Subliminal cues in films / TV adverts, subliminal cues before an interview
 - Students signing an honor-code at university before they hand in assignments
 - Showing pictures of older citizens may cause people to walk more slowly
 - When a picture of a woman appeared on a math test, female students were reminded to recall their gender and performed worse on the test (Shih et al 1999)



How effective is subliminal advertising?



Labelling a product as premium affects our expectations!



Is there less plagiarism with an honour code at university?

Anchoring

- Value is often set by **anchors** or **imprints in our minds** which we then use as **mental reference points** when making decisions.
- Some anchors establish in our mind a low price, others help to establish a higher basic price that we should be prepared to pay on a regular basis
- Examples of price anchoring:
 - “Big Price Drop” campaigns by supermarkets
 - Refereeing decisions might be anchored by the size of home crowd
 - Price anchors are used in menus at restaurants and in coffee shops
 - Recommended tips used by taxi companies / restaurants



Offer price for houses on sale is an anchor for potential buyers



Pricing of new products such as the Apple Watch



McDonalds has a lower anchor price than Starbucks

Availability Bias / Availability Heuristic

- Biases affect how people process complex information
- The **availability bias** happens when people often judge the likelihood of an event, or frequency of its occurrence by the ease with which examples and instances come easily to mind.
- Most consumers are poor at **risk assessments** – for example they over-estimate the likelihood of attacks by sharks or list accidents.
- Smokers may see one elderly heavy smoker and exaggerate the likely healthy life expectancy of this group.
- Periods of very warm weather affect beliefs about causes of climate change



The majority of people are poor at estimating probability



After an air crash, more people take the train



Seeing an older heavy smoker in the media may cause availability bias

Bounded Rationality

- Most consumers and businesses do not have sufficient information to make fully-informed judgements when making their decisions
- The increasing **complexity** of products also makes life difficult
- Bounded rationality suggests that consumers and businesses opt to satisfice rather than maximise
- They will use rules of thumb and approximations when active in different markets



A bewildering range of cleaning products!



Many people do not understand complex pensions



There are search costs in seeking out all available information



Lots of people rely on rules of thumb when making choices

Choice Architecture

- Choice architecture describes how the decisions we make are affected by the layout / sequencing / and range of choices that are available
- For example getting students to eat more helpfully might involve altering the design of the school or college restaurant
- Smart building designs might make it more attractive / easier to take the stairs rather than use a lift!
- Choice architecture is often more effective when it encourages simplicity in the decisions that people have to make and in which the benefits and costs are made clear.



Getting more people to use the salad bar at lunch



Traffic flow & speed is influenced by the road architecture



How can we encourage people to avoid the lift and take more exercise?



How best to get people to use hand sanitizers more frequently?

Commitment Contracts and Choices



Pre-commitment can cement a choice



We are more likely to value self assembly furniture we buy



Commitment apps are becoming more popular!

- There is often a divide between intention and action especially for people with limited resolve and those vulnerable to temptation!
- The more public our position, the less willing we are to change it
- We feel strongly about activities where we have made a personal commitment
- **Commitment contracts** can reinforce decisions to adopt healthful behaviors
- They impose a penalty if people do not reach a goal – invoking loss aversion
- Conditional cash transfers (CCTs) have become popular in many poorer countries
- Examples:
 - Committing yourself to a diet using an online app
 - Commitment to joining a local savings scheme /credit union
 - Commitment signals to a partner using an expensive gift

Some More Behavioural Economics in Action!



Using the aroma of disinfectant gel to encourage regular use in hospitals

DON'T MISS!

Adding £160 cost of appointment to a text reminder reduced NHS non-attenders by 25%



"Help your friend raise even more money by sharing their page" raised giving by 28%



Auto-enrolment combats status quo bias for pensions



Align teacher interests with student learning with social rewards

Framing

- Framing a question or offering it a different way often generates a new response by **changing the comparison set** it is viewed in – **small details matter!**
- Altering what information is provided, and its design can help people make better decisions
- People who use narrow framing often draw heavily on automatic / default assumptions
- Examples of framing:
 - Framing of privacy settings on social networks such as Facebook
 - Presumed consent for human organ donations to increase the supply of organs
 - Framing of referendum questions
 - Framing of interest paid on loans
- **Asymmetric framing**
 - Involves including an obviously inferior 3rd choice or a hyper-expensive 3rd option rather than a simple expensive/cheap choice can guide consumers to more expensively-priced items



LOW-FAT

90% fat free or 10% fat?
Which is most effective in
shaping spending?



NAI
OXI

The framing of the Greek
referendum ballot paper
may have been important

Public Policy Issues and Behavioural Concepts

(Note: Business have always tried to shape consumer choices through product design, marketing and the sales process)

Public policy issue	Behavioural concepts applied to the issue	Business use of behavioural biases for their own commercial gain	Nudges/levers to change behaviour	Conventional (traditional) government interventions
Obesity <i>24% of adults in England are obese. A further 36% are overweight</i>	<ul style="list-style-type: none"> System 1 thinking Social norms (kebabs!) Herd behaviour Present bias / desire for instant gratification Bounded self-control Choice over-load and fears of regret leading to status quo bias in food choices 	<ul style="list-style-type: none"> Framing of products e.g. 90% fat free v 10% fat Heavy price discounts on processed foods – affects mental accounting Choice architecture in fast-food restaurants Low price anchoring e.g. for cheaper burgers 	<ul style="list-style-type: none"> Appeal to loss aversion e.g. impact on family of heart attacks / premature death Changing choice architecture in restaurants / vending machines and shops Pre-commitment devices e.g. parents choosing healthy school meals in advance 	<ul style="list-style-type: none"> Taxes on high fat / high sugar / high salt foods Subsidies for “healthy alternatives” Tougher regulations for food/drink manufacturers Education / information programmes / better labelling Change formulation of school meals
Gambling addiction <i>During 2013, £1.6 billion was lost by gamblers on fixed odds betting terminals in Britain</i>	<ul style="list-style-type: none"> Priming Addiction Mental accounting Present bias Social norms / networks Loss aversion - vulnerable players chase their losses, Availability heuristic Hot hand fallacy / over-confidence in ability to land winning bets 	<ul style="list-style-type: none"> Gambling on credit cards Money back bets Choice architecture on the betting machines Free plays for new users Social networks (creating new cultural norms) Norms to create social acceptance (e.g. People’s Lottery, NHS lottery) Cashing-out (present bias) 	<ul style="list-style-type: none"> Anchoring (maximum bet on a single bet e.g. on FOBTs) Self-commitment devices e.g. self-exclusion schemes from shops for 6 months Engage system 2 + friction cost – people wanting to stake over £50 on a machine must load cash via staff Framing savings from quitting in attractive terms 	<ul style="list-style-type: none"> Regulation of betting laws Stronger advertising code Better financial education Maximum bets e.g. £2 instead of £100 on fixed odd terminals Tougher local authority planning laws on new betting shops Treating free bets as a taxable
Inadequate saving for retirement or other long term needs <i>Roughly aged between 25 and 34. Millennials make up 13.9% of the total UK population</i>	<ul style="list-style-type: none"> Default bias Present bias – trade-off between present and future – self-control problems (current/future spend) Mental accounting (pension v holiday money) Bounded rationality – high product complexity Loss aversion – fears of regret / emotional state Narrowing framing – i.e. not seeing savings investment as a broad range of options Free rider on state welfare 	<ul style="list-style-type: none"> Persuasion and social influence (possible miss-selling of savings plans) Availability heuristic – exploiting uncertainty/fear Default bias – reluctance to switch savings accounts Using saliency bias e.g. focusing on teaser interest rates in the first few years Choice architecture - hiding unattractive product attributes in the small-print (including charges, cuts in interest) 	<ul style="list-style-type: none"> Automatic enrolment on employer-provided pension schemes with minimum (%) contributions “People like me” marketing – using social norms Reminder letters to encourage people to switch to better-paying accounts Thaler’s “Save More Tomorrow” (USA) – a pre-commitment scheme with built in features to avoid loss aversion (Important example) 	<ul style="list-style-type: none"> Tax free interest on savings Reforms to inheritance tax Triple lock for pensioner transfers Introduce more competition into retail banking to raise interest rates Living wage / higher minimum wage to increase in-work incomes Labour market interventions to tackle possible monopsony power of employers (lower wages which affects disposable income) Higher penalties for financial fraud

Choices Influenced by Social Norms

- Our day-to-day behaviour is influenced by prevailing **social norms** or **social customs**
- Examples:
 - The changing social stigma of drink driving and speeding
 - Observing white lines in car parks
 - Queuing behaviour in shops
 - Impact on people's behaviour of smoking bans in public places
 - Making seat-belts compulsory – this appears to have created new habits / conventions which became self-sustaining
 - Social norms about “giving” e.g. for charitable fund-raising
- Social networks can amplify different forms of behaviour

Social norms become accepted by the majority of a given community of people



Respecting seat belt laws



Social norms when queuing



Not smoking in public places



Social norms at the pub such as buying a round of drinks

Loss aversion

Giving something up is often more painful to us than a equal gain

Problem 1

Which of the following two choices would you prefer?

A) A certain win of \$250, versus

B) A 25% chance to win \$1000 and a 75% chance to win nothing?

Problem 2

How about this choice?

C) A certain loss of \$750, versus

D) A 75% chance to lose \$1000 and a 25% chance to lose nothing?

The choices that people make are found to be different if these choices are framed as a **gain** or a **loss**. When faced with the first type of decision, a greater proportion of people will opt for the riskless alternative A), while for the second problem people are more likely to choose the riskier D).