

Behavioural science and policy

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Ten principles in economics

- People face tradeoffs
- The cost of something is what you give up to get it
- Rational people think at the margin
- People respond to incentives
- Trade can make everyone better off
- Markets are usually a good way to organize economic activity
- Government can sometimes improve market outcomes
- A country's standard of living depends on its ability to produce goods and services
- Prices rise when the government prints too much money
- Society faces a short run tradeoff between inflation and unemployment

Translation (Yoram Bauman)

○ .

○ .

○ .

○ .

○ .

○ .

○ .

○ Blah, blah, blah

○ Blah, blah, blah

○ Blah, blah, blah

Translation (Yoram Bauman)

- ◉ Choices are bad
- ◉ Choices are really bad
- ◉ People are stupid
- ◉ People aren't that stupid
- ◉ Trade can make everyone worse off
- ◉ Government are stupid
- ◉ Government aren't that stupid
- ◉ Blah, blah, blah
- ◉ Blah, blah, blah
- ◉ Blah, blah, blah

The Hero



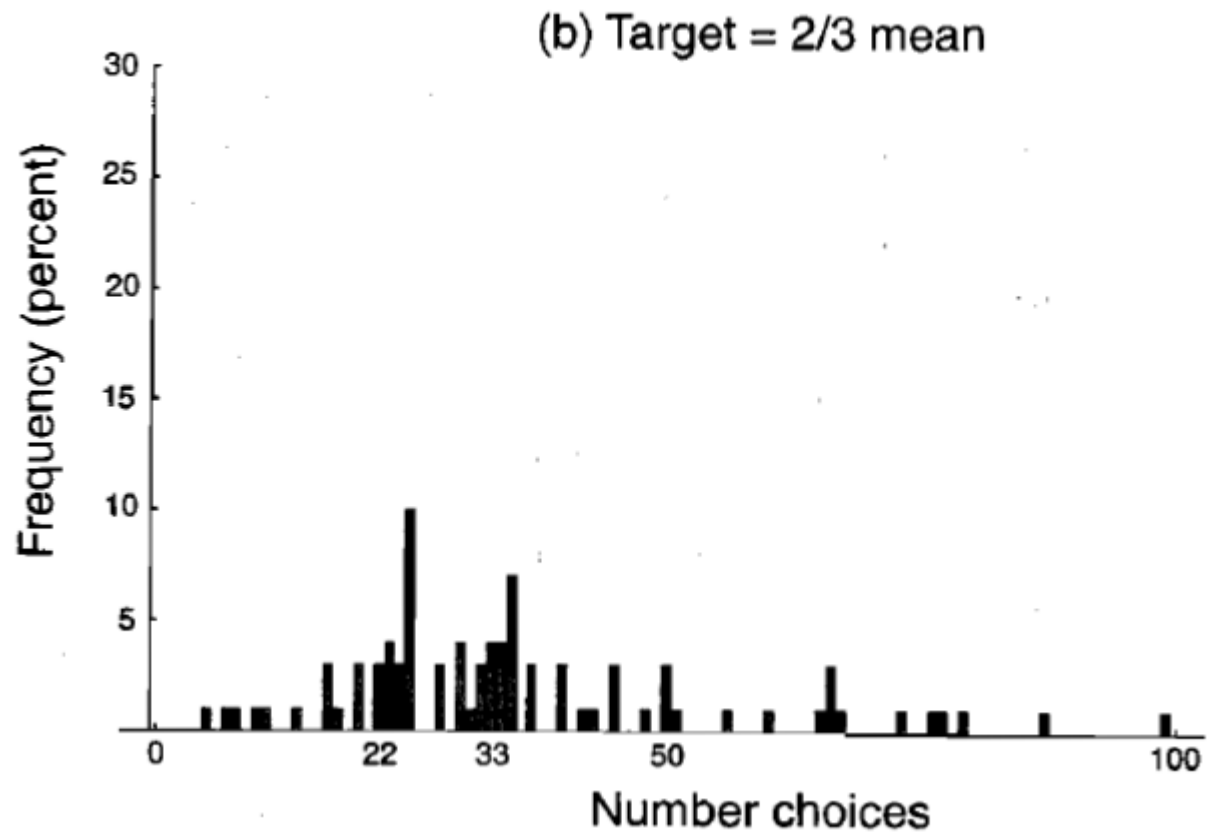
Rewind

- Every policy intervention has some assumptions over the behavior of consumers/agents
- If we have well defined preferences, we should give more **information** (e.g. European Court of Justice uses a concept of the average consumer that is entirely modelled on the Homo Oeconomicus)

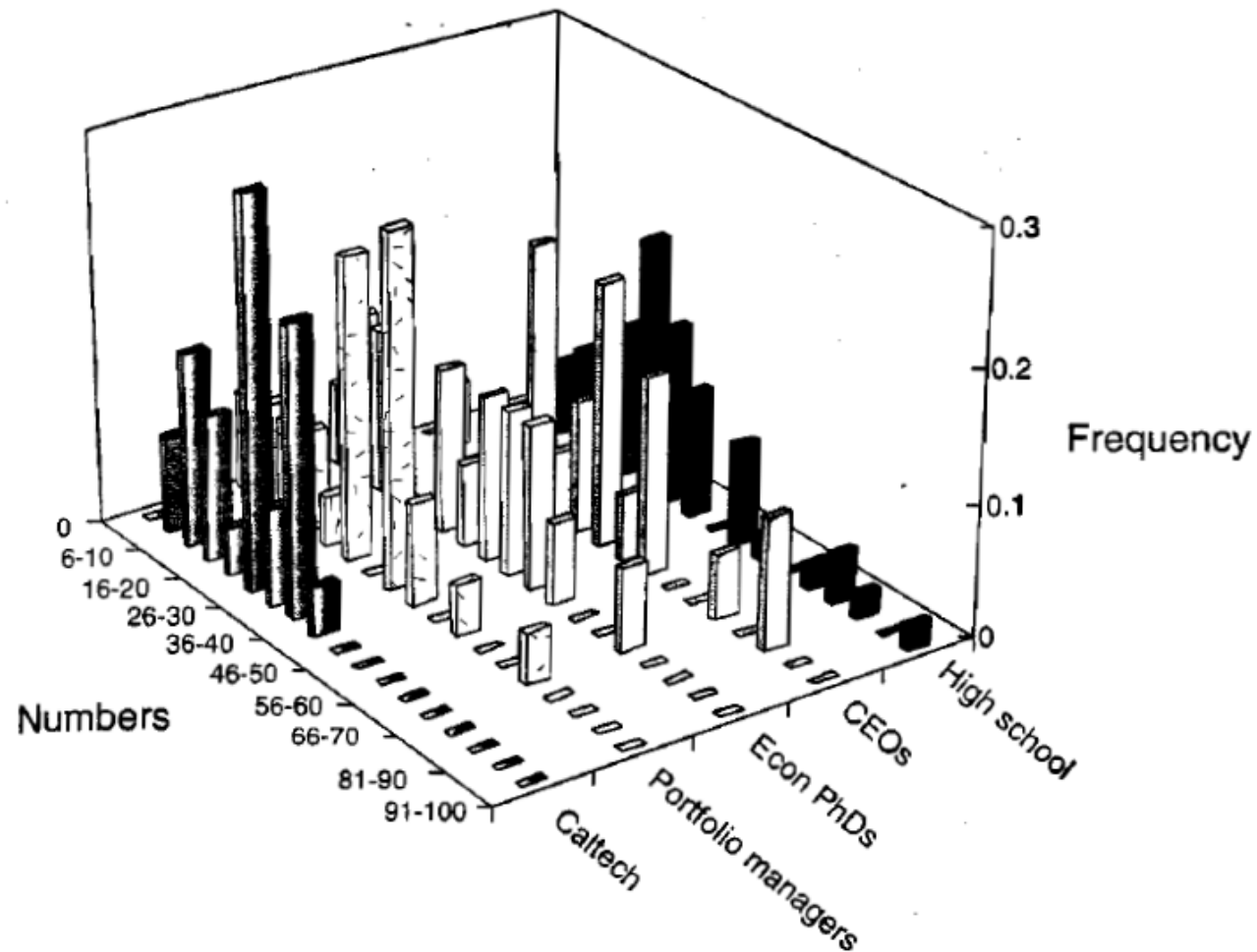
The p-beauty context

- Choose a number between 0, 1, 2, ..., 100
- The person who states the number closer to p -times (p between 0 and 1, e.g. $2/3$) the average number said in this room

p-beauty contest



p-beauty contest



Behaviour

- Cognitive processing of information is a constraint
- People won't do stupid things and everybody knows people won't do stupid things are very different assumptions
- It can be smart not to be too rational (e.g. In financial matters)

“I have a plan”



Dual selves, self control

- ◉ Tomorrow I will quit smoking
- ◉ I mean really
- ◉ This time is for real
- ◉ I am serious I mean it
- ◉ ...
- ◉ Tomorrow I will quit smoking
- ◉ I mean, really
- ◉ This time is for real
- ◉ I am serious I mean it

Choice architecture

- ⦿ Planned choices are different from actual choices

People make mistakes

Delete

Are you sure you want to delete this?

Delete

Cancel

Choice architecture

- ⦿ Planned choices are different from actual choices
- ⦿ Are policies mistake proof?

Context dependence

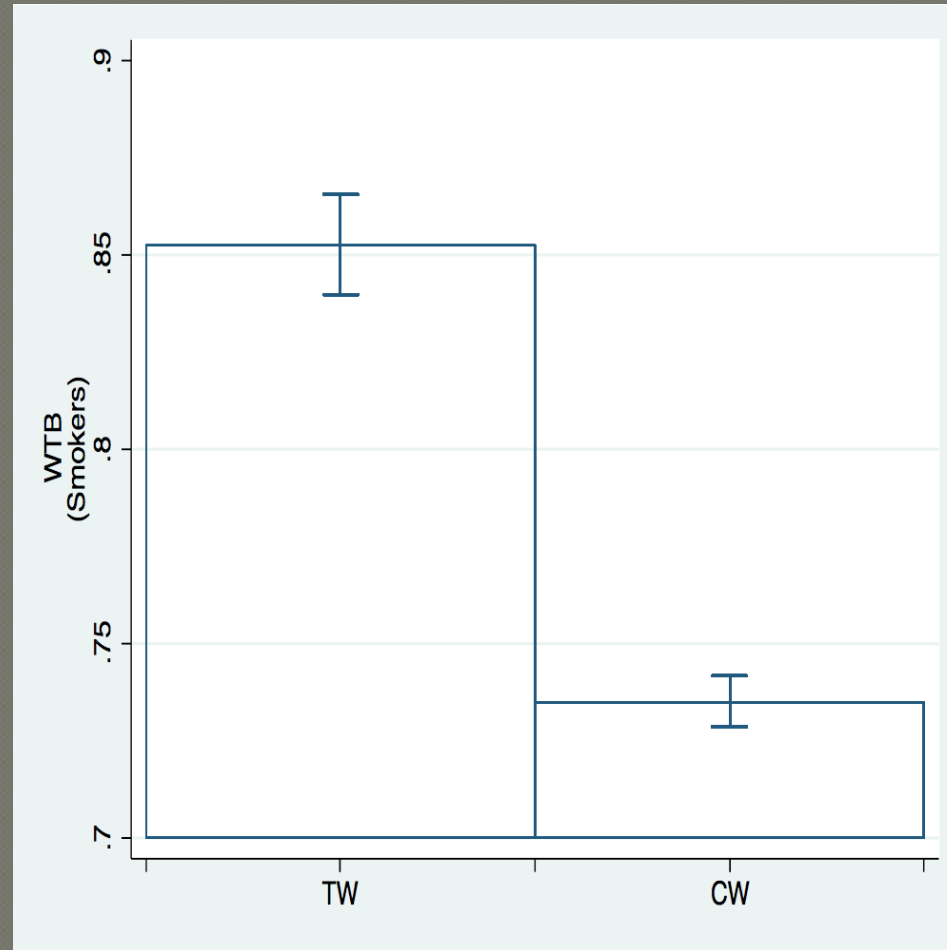


System 1 and 2



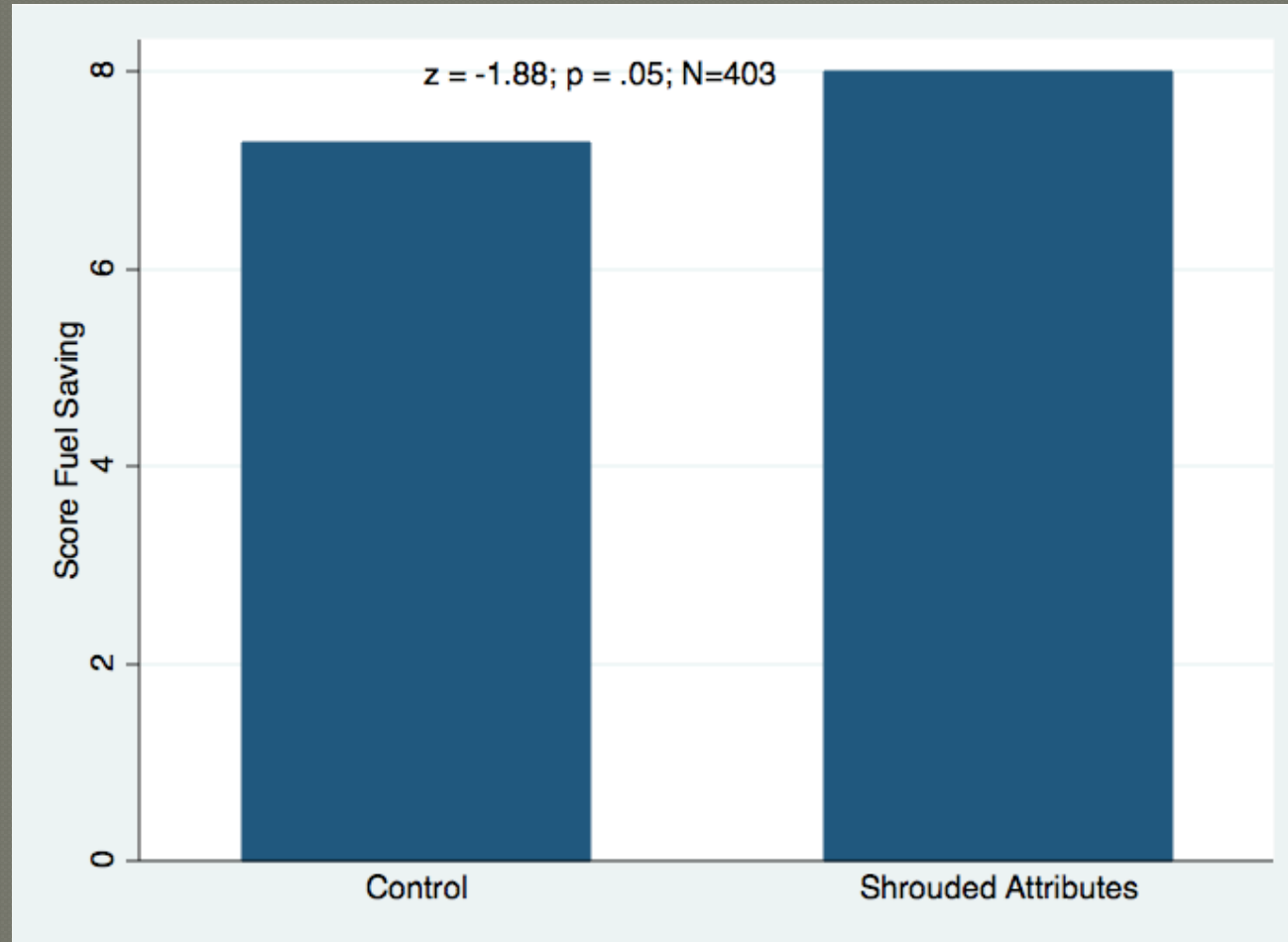
Source: <http://bdecastella.com/2012/12/effectiveness-the-long-and-short-of-it/>

Emotions

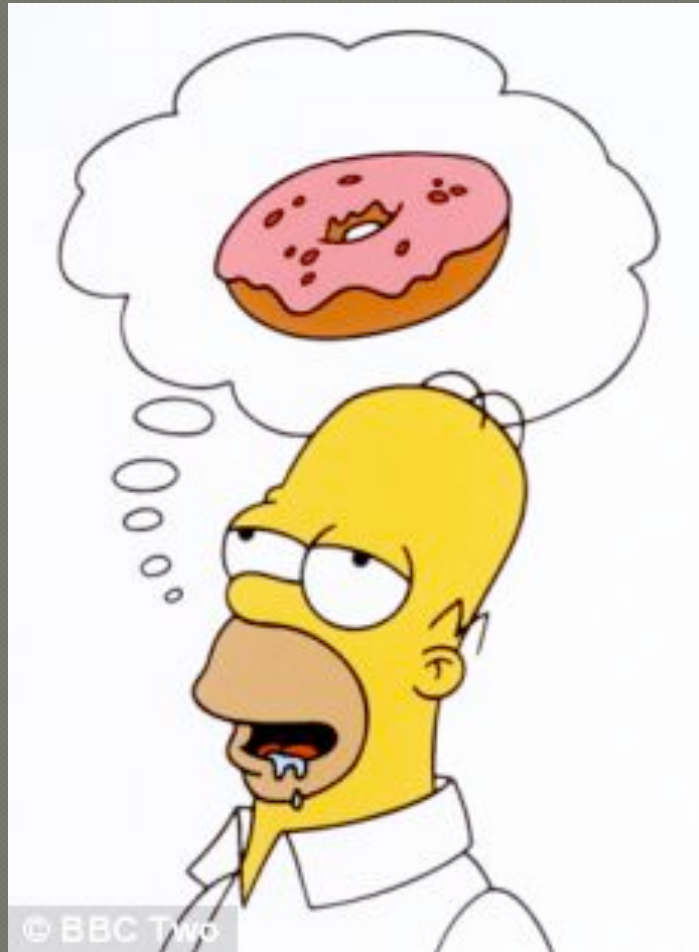


Codagnone et al. (2014)

Shrouded Attributes



Bandwidth



Bandwidth

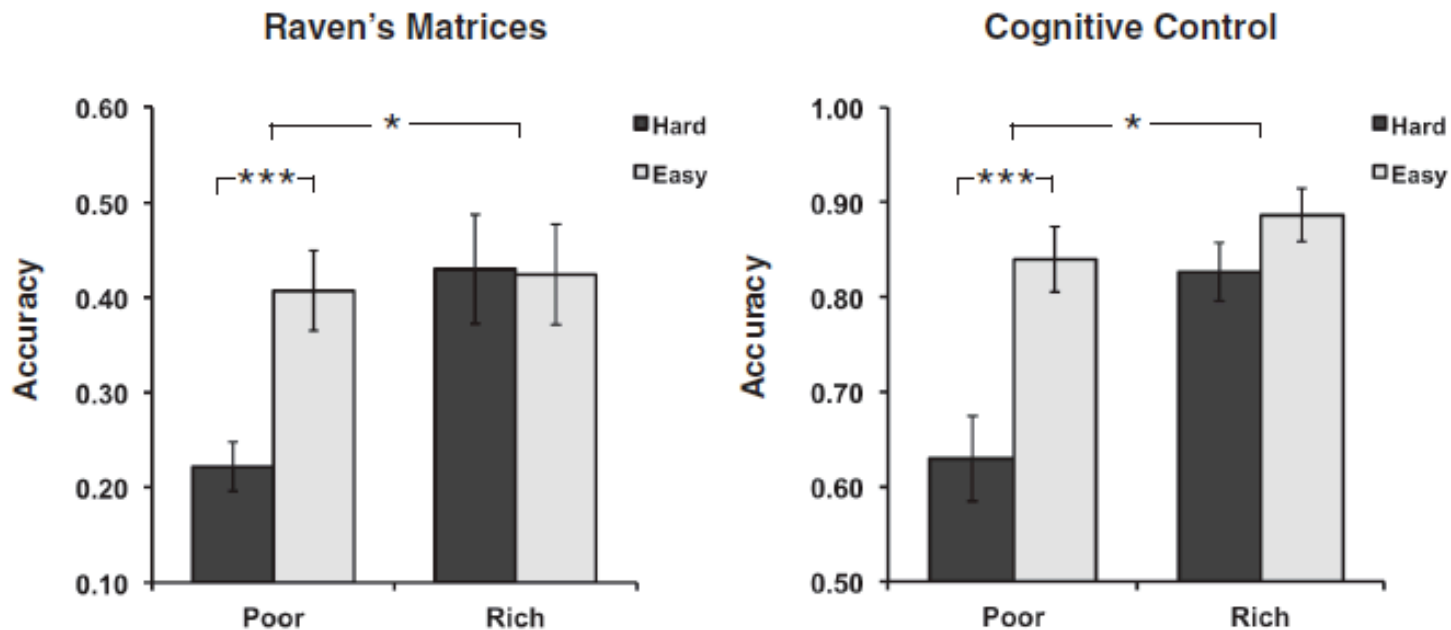


Fig. 2. Accuracy on the Raven's matrices and the cognitive control tasks in the hard and easy conditions, for the poor and the rich participants, when incentives were provided in experiment 3. (Left) Performance on Raven's Matrices task. (Right) Performance on cognitive control task. Error bars reflect ± 1 SEM. Top horizontal bars show two-way interaction (poor versus rich \times hard versus easy). $*P < 0.05$, $*P < 0.001$.**

Bandwidth

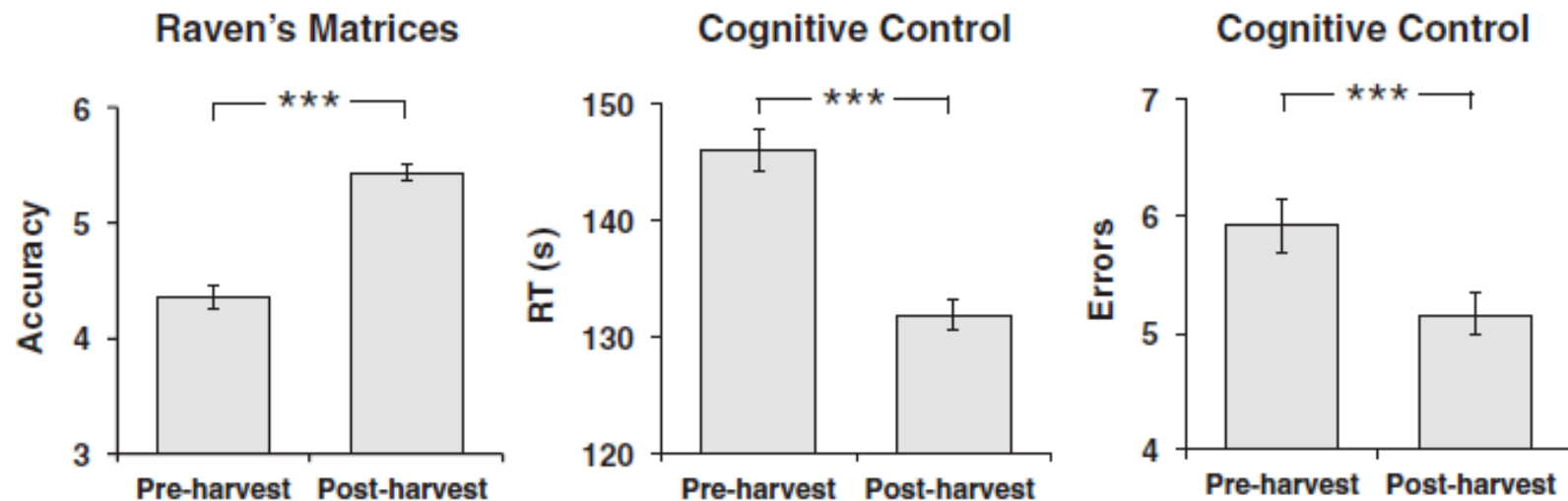
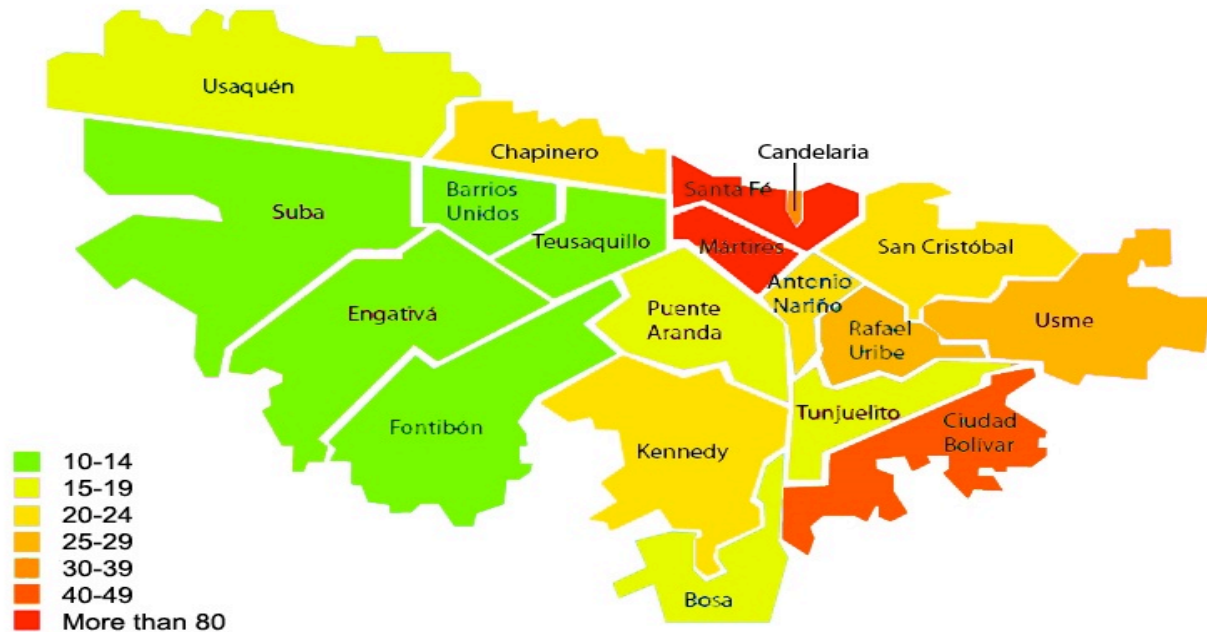
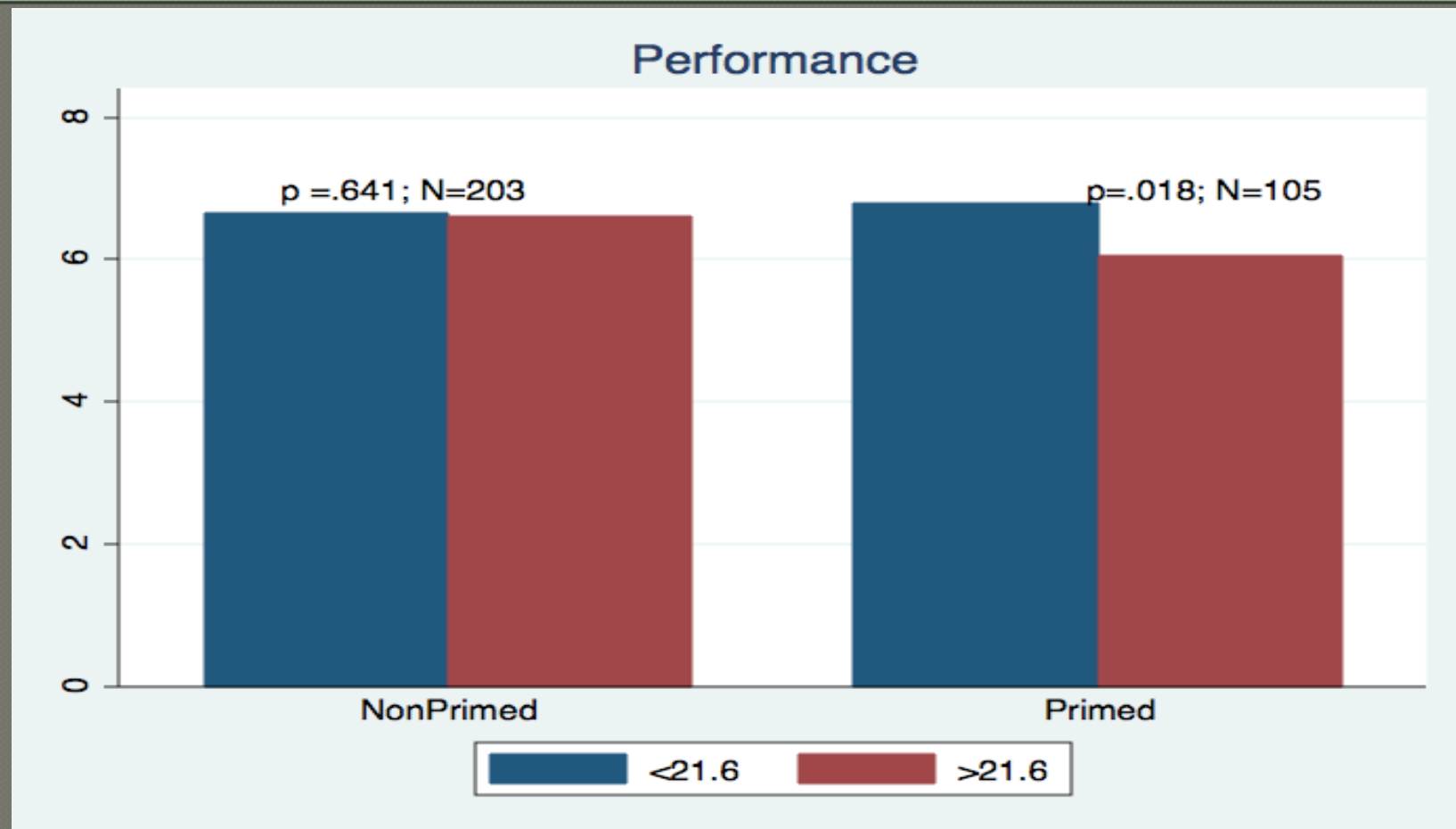


Fig. 4. Accuracy on the Raven's matrices and the cognitive control tasks for pre-harvest and post-harvest farmers in the field study. (Left) Performance on Raven's matrices task. (Middle and Right) Stroop task (measuring cognitive control) response times (RT) and error rates, respectively; error bars reflect ± 1 SEM. Top horizontal bars show test for main effect of pre- versus post-harvest ($*P < 0.001$).**

Bandwidth



Memory Task

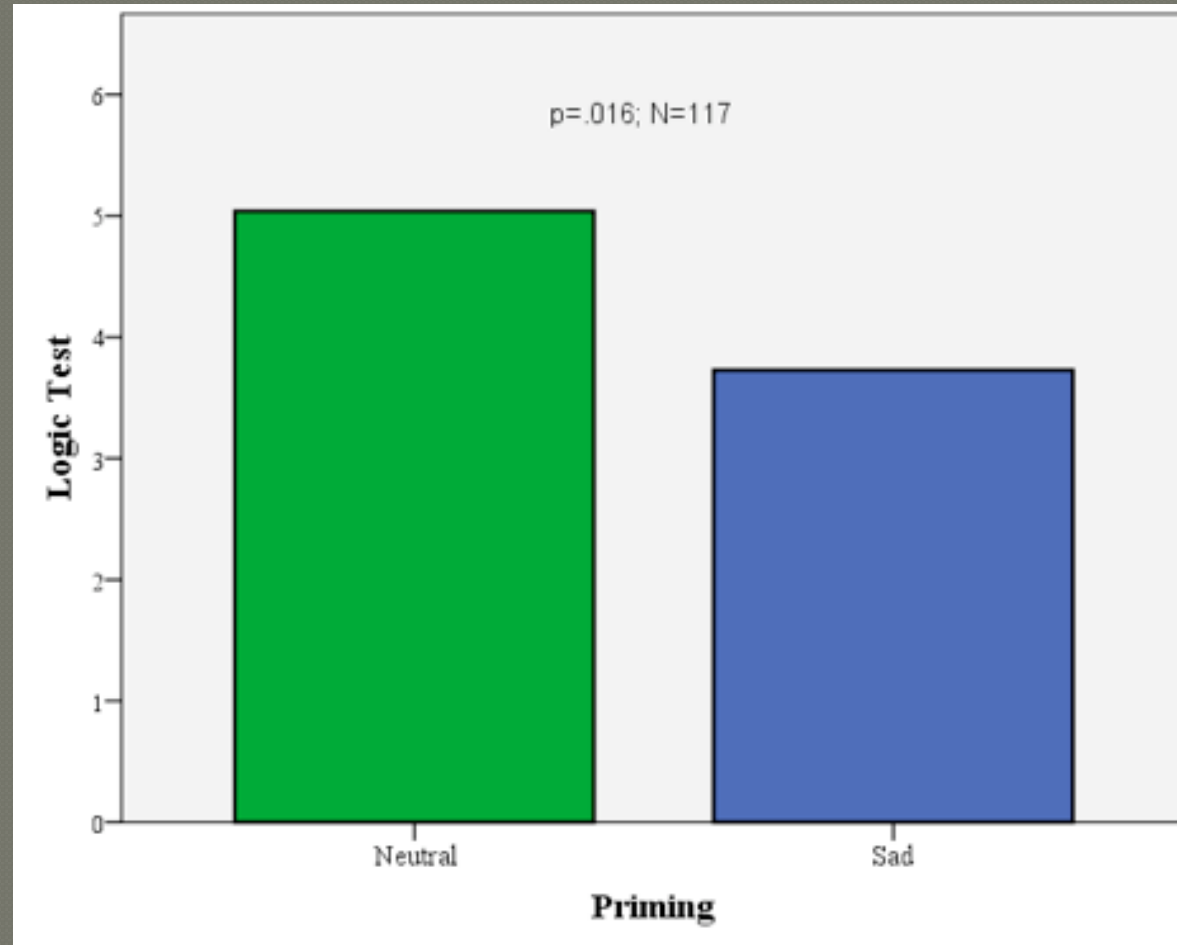


Bogliacino, Grimalda & Ortoleva (2013)

Montes de María



Logic test



Bogliacino et al. (in progress)

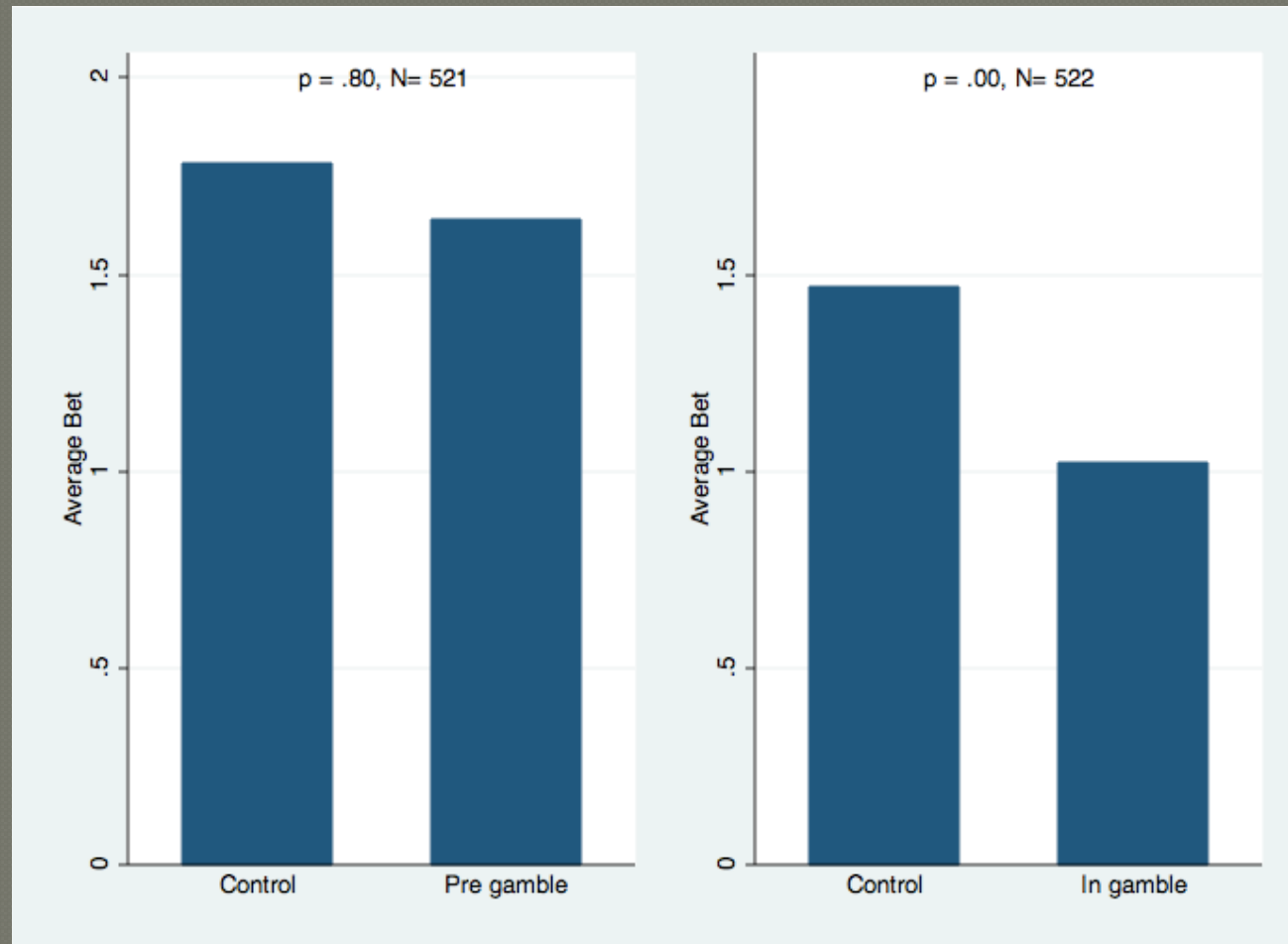
Lessons for policymakers

1. Context dependence implies endogenous preferences, no minimal criterion (Codagnone et al. *J Epidemiol & Community Health* 2014);

Lessons for policymakers

2. It's neither simple, not simpler

Affordance vs default option



Lessons for policymakers

2. Reforms as experiment?

Reforms as experiments

- It's neither new, nor the magic trick
- Shareholders
- Policy will never be conflict free (truth to power)

Lessons for policymakers

4. It's not about cognitive universalism (from homo oeconomicus to homer oeconomicus). E.g. Bandwidth
Social structure is important, power is important (“addicted by design”)
Let's not avoid taking things seriously (Lancet, 2013)