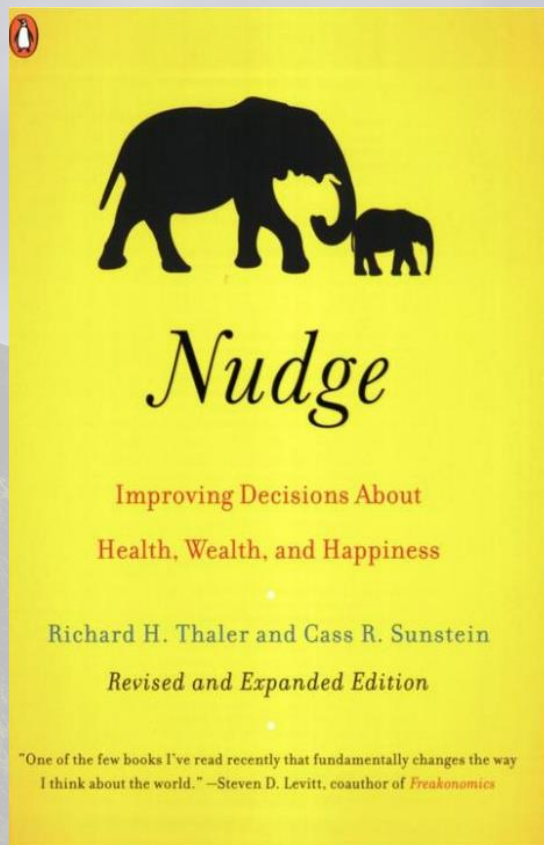


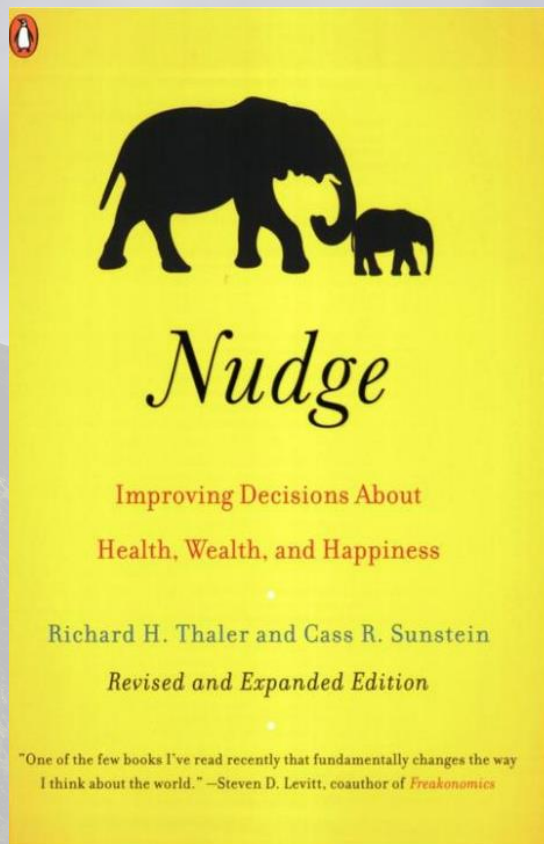
Behavioural science and regulatory governance



- Evolution
- Examples
- Evidence
- Experiments
- Ethics
- Epistemic challenges

Lecture notes: www.RegulatoryFrontlines.wordpress.com

Outline



A nudge is

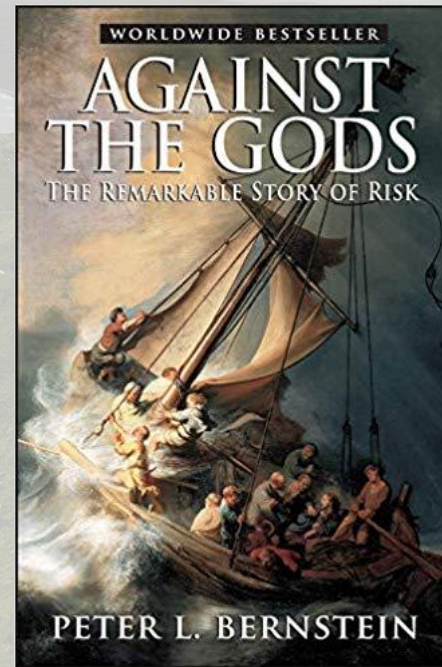
- ‘any aspect of the choice architecture that alters people's behavior in a predictable way without forbidding any options or significantly changing their economic incentives.’
- ‘To count as a mere nudge, the intervention must be easy and cheap to avoid.’

Outline

Neo classical rational choice theory

Humans have

- Stable, coherent, and well defined preferences...
- ...rooted in self-interest and utility maximization...
- ...that are revealed through their choices



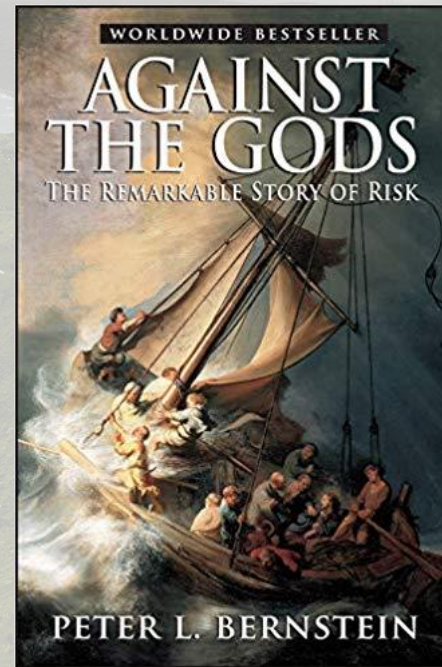
RU #Human

or #Econ?

Neo classical rational choice theory

Humans have

- Stable, coherent, and well defined preferences...
- ...rooted in self-interest and utility maximization...
- ...that are revealed through their choices



RU #Human

or #Econ?

Get NZD 9,500 with certainty
or
95% chance to win NZD 10,000

Lose NZD 9,500 with certainty,
or
95% chance to lose NZD 10,000

Get NZD 500 with certainty
or
5% chance to win NZD 10,000

Lose NZD 500 with certainty
or
5% chance to lose NZD 10,000

RU #Human

or #Econ?

[RISK SEEKING]

Get NZD 9,500 with certainty
or

95% chance to win NZD 10,000

[RISK AVERSE]

Lose NZD 9,500 with certainty,
or

95% chance to lose NZD 10,000

[RISK AVERSE]

Get NZD 500 with certainty
or

95% chance to win NZD 10,000

[RISK SEEKING]

Lose NZD 500 with certainty,
or

95% chance to lose NZD 10,000

RU #Human

or #Econ?

[RISK AVERSE]

Get NZD 9,500 with certainty
or
95% chance to win NZD 10,000

[RISK SEEKING]

Lose NZD 9,500 with certainty,
or
95% chance to lose NZD 10,000

[RISK SEEKING]

Get NZD 500 with certainty
or
5% chance to win NZD 10,000

[RISK AVERSE]

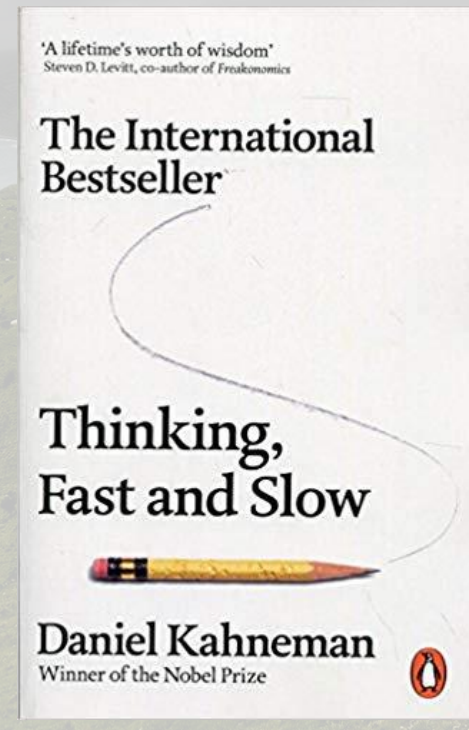
Lose NZD 500 with certainty
or
5% chance to lose NZD 10,000

RU #Human

or #Econ?

Humans

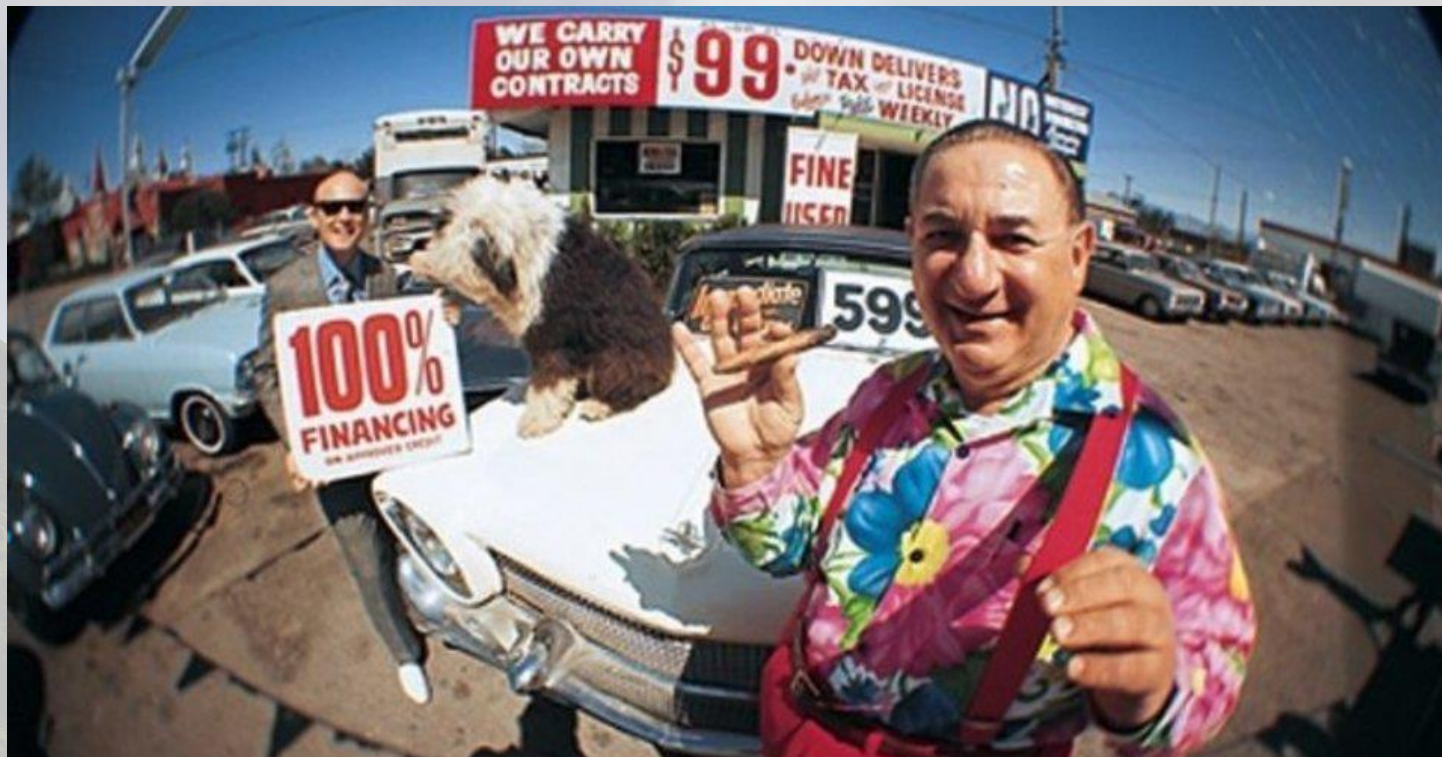
- Tend to overweight large probabilities and underweight small probabilities
- Are loss averse
- Have 'present bias'
- Set a reference point ('anchoring heuristic') from which they assess perceived gains and losses ('expected utility')



RU #Human

or #Econ?

Anchoring



Was NZD 6,500 now NZD 5,999

RU #Human

or #Econ?

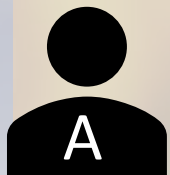
Utility



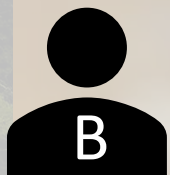
RU #Human

or #Econ?

Utility



$\$1$ to $\$2$ = $\$1$ utility increase



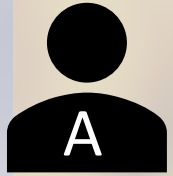
$\$100,000$ to $\$100,001$ = $\$1$ utility increase

Identical increase in utility?

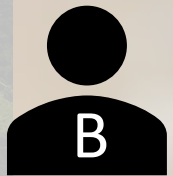
RU #Human

or #Econ?

Utility



\$10,000 to \$50,000 = \$50,000 utility



\$90,000 to \$50,000 = \$50,000 utility

Identical utility result?

RU #Human

or #Econ?

Utility



Relative
to what?

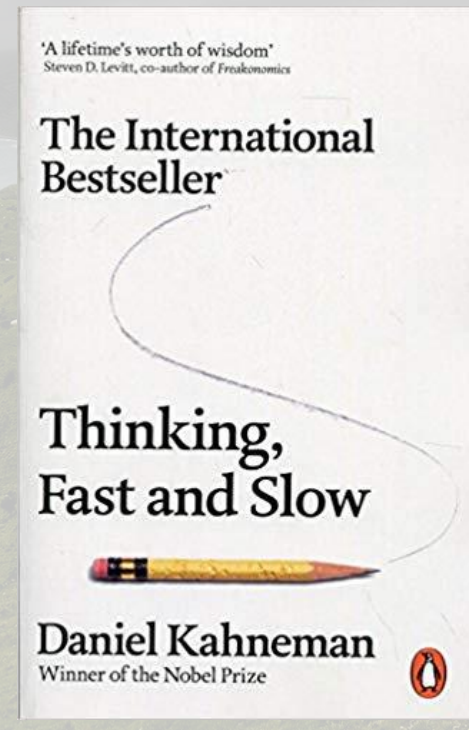
- Expected
- Experienced
- Remembered

RU #Human

or #Econ?

Humans

- Tend to overweight large probabilities and underweight small probabilities
- Are loss averse
- Have 'present bias'
- Set a reference point ('anchoring') from which they assess perceived gains and losses ('expected utility')
- Become less sensitive to changes in probability as they move away from a reference point ('diminishing sensitivities')



RU #Human

or #Econ?



RU #Human

or #Econ?



**Behavioural Insights
and Public Policy**
LESSONS FROM AROUND THE WORLD



- Change defaults
- Social proof heuristics
- Warnings (graphic or otherwise)
- Disclosure of comparative information
- Increase ease and convenience of desired behavior
- Active choosing
- Precommitment strategies
- Increase information salience

From theory

to practice

From theory

to practice

- Change defaults
- Social proof heuristics
- Warnings (graphic or otherwise)
- Disclosure of comparative information
- Increase ease and convenience of desired behavior
- Active choosing
- Precommitment strategies
- Increase information salience

¡También en Belén el agua se agota, cuidémosla!

¡Tu hogar consumió menos agua que el promedio de casas en Belén!

¡Buen trabajo!



Si tiene alguna duda, puede contactarse con la Dirección de Servicios Públicos al teléfono 2587-0200 / 2587-0201 o al correo electrónico servicios@belen.go.cr

¡OJO! Tu hogar consumió más agua que el promedio de casas en Belén.

Algunos consejos para reducir su consumo:

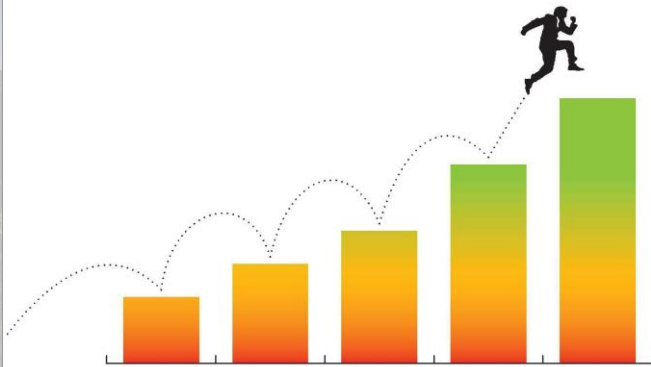
- Dúchese con menos tiempo.
- Utilice menos agua para regar el jardín; el zacate no necesita agua!
- No lave el carro a menudo.

¡También en Belén el agua se agota, cuidémosla!



Si tiene alguna duda, puede contactarse con la Dirección de Servicios Públicos al teléfono 2587-0200 / 2587-0201 o al correo electrónico servicios@belen.go.cr

SAVE MORE TOMORROW



PRACTICAL BEHAVIORAL FINANCE
SOLUTIONS TO IMPROVE 401(K) PLANS

SHLOMO BENARTZI
WITH ROGER LEWIN

- Change defaults
- Social proof heuristics
- Warnings (graphic or otherwise)
- Disclosure of comparative information
- Increase ease and convenience of desired behavior
- Active choosing
- Precommitment strategies
- Increase information salience

From theory

to practice

THE
BEHAVIOURAL
INSIGHTS TEAM.



Office of
Evaluation
Sciences



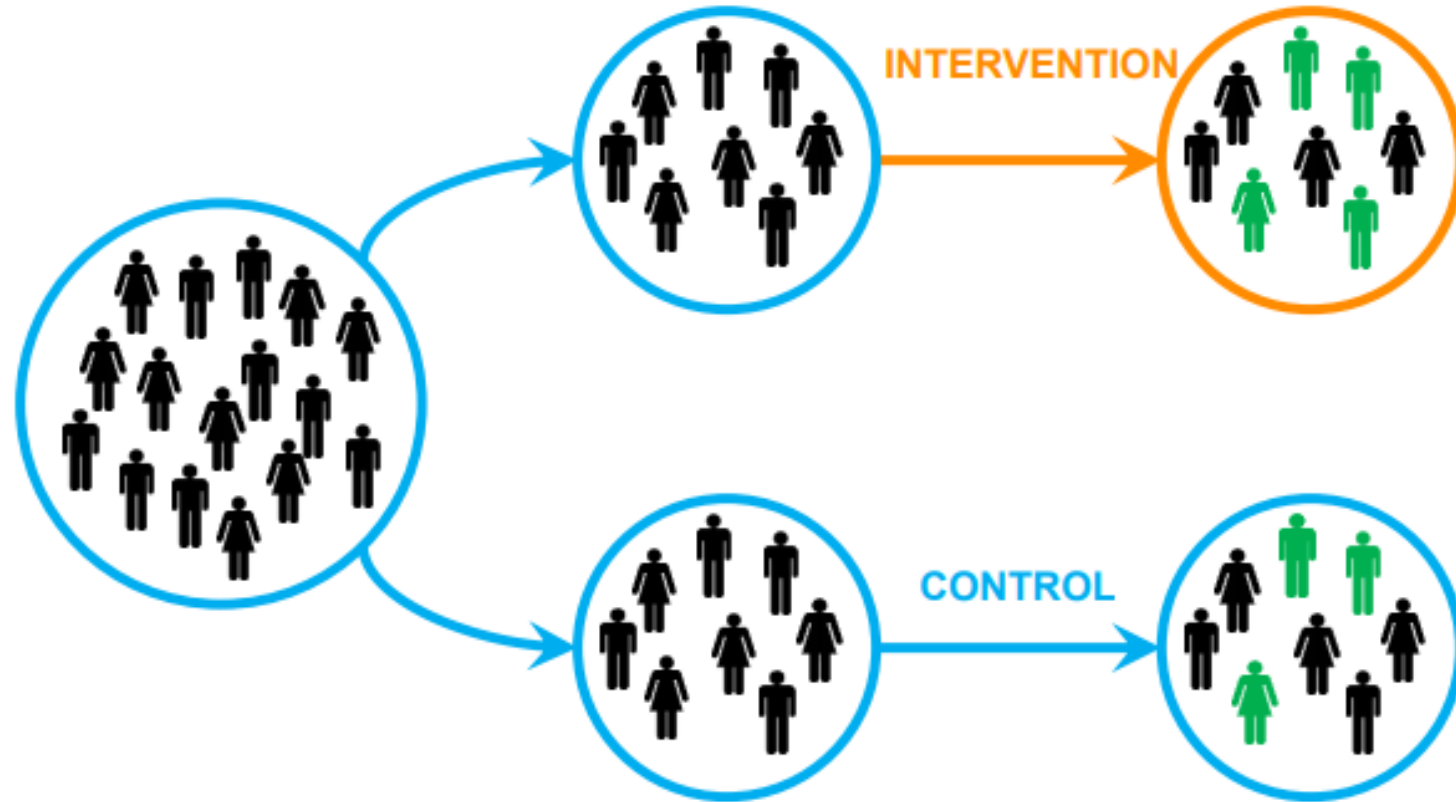
Global
academia

- Often it does
- Let's then carry out more randomised control trials (RCTs)
- Sometimes it does, but challenges across the board
- Often too small cohorts
- Often lab tests only
- Never tested in comparison with other interventions

But...

**does it
work?**

Randomized control trials



But...

does it
work?

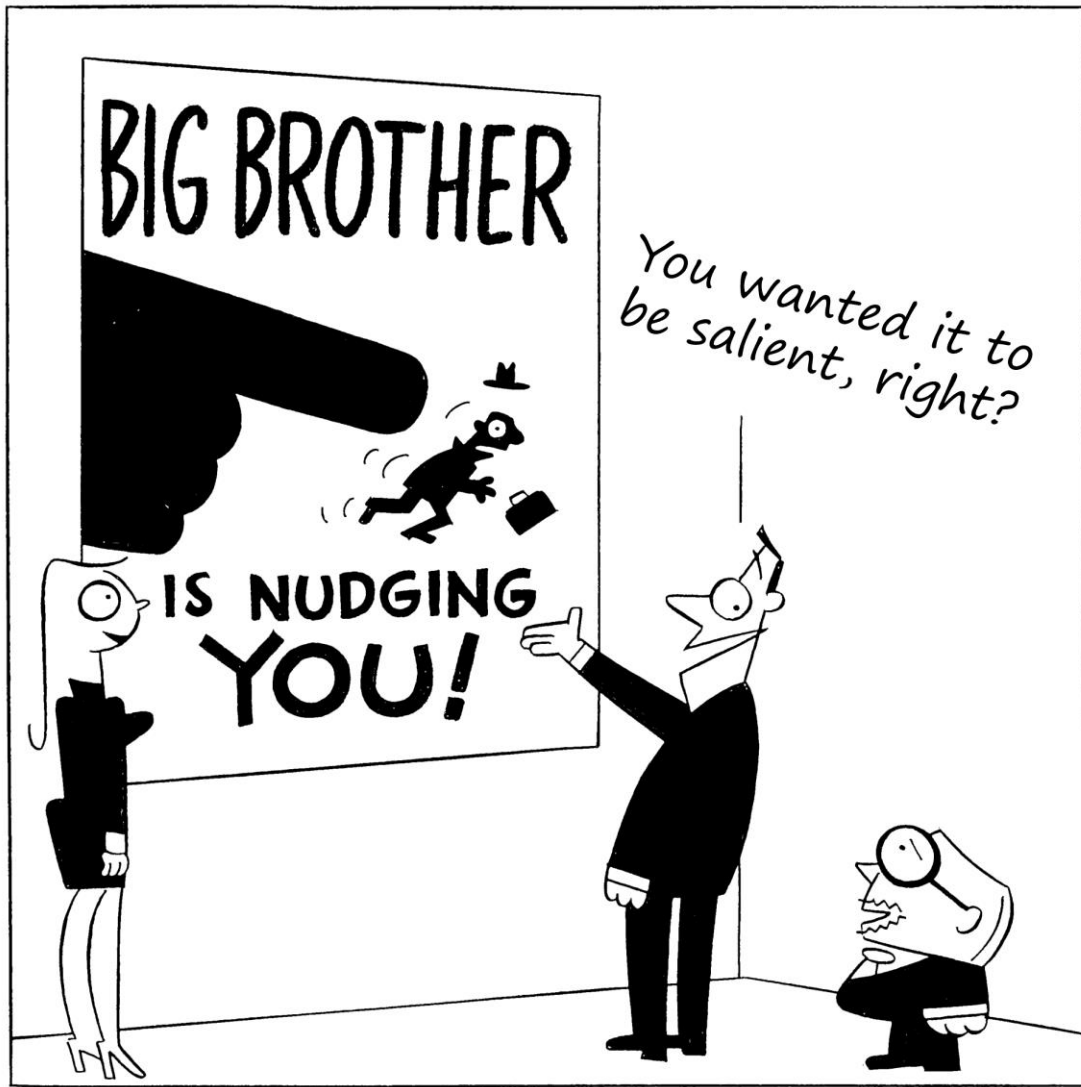
Randomized control trials



But...

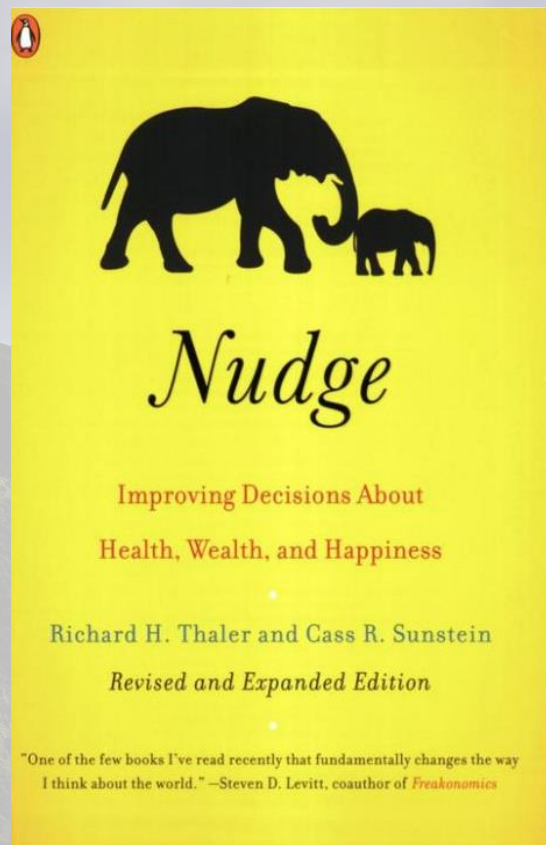
does it work?

53.5% vs. 60.4%



Ethical

challenges



Prof Richard Thaler
economist



Prof Cass Sunstein
legal scholar

Ethical

challenges



Noticing

- Framing
- Allocation of attention
- Confirmation bias

Deliberating

- Group reinforcement
- Illusion of similarity
- Inter-group opposition

Executing

- Optimism bias
- Illusion of control

Epistemic challenges

- Behavioural regulation has promise



Take home

lessons



- Behavioural regulation has promise
- It may work particularly well if
 - Clear cognitive failures
 - Homogenous target group
 - Synergy with other interventions

Take home

lessons



- Behavioural regulation has promise
- It may work particularly well if
 - Clear cognitive failures
 - Homogenous target group
 - Synergy with other interventions
- But requires bespoke application

Take home

lessons

Behavioural insights and regulatory practice

A review of the international academic literature



Professor Jeroen van der Heijden
School of Government
Victoria University of Wellington

State of the Art in Regulatory Governance Research Paper 2019.01



Thank you. Questions?

Professor Jeroen van der Heijden
Chair in Regulatory Practice
Victoria Business School | VUW

jeroen.vanderheijden@vuw.ac.nz

www.RegulatoryFrontlines.wordpress.com

www.victoria.ac.nz/sog/researchcentres/chair-in-regulatory-practice