

# Nudge : Improving Decisions about Health, Wealth, and Happiness

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# Basic Concepts

## Choice architecture

The environment in which people make decisions.

## Nudge

Features of the choice architecture that influence the decisions people make without changing either objective payoffs or incentives.

# Why We Need Nudges

## Three Reasons

- Human Fallibility
- Social Impact
- Benefit from Nudges

# Why We Need Nudges

## Human Fallibility

- Humans not Econs
- Automatic system and Reflective system
- People make biased judgments.

# Why We Need Nudges

## Human Fallibility

- Heuristic
- Overconfidence
- Inertia
- Framing

# Why We Need Nudges

## Human Fallibility

- Heuristic

### Anchoring heuristic

You start with some anchor you know, and adjust in the direction you think is appropriate.

- Overconfidence
- Inertia
- Framing

# Why We Need Nudges

## Human Fallibility

- Heuristic

### Availability heuristic

People judge how likely something is, by how easy it is to recall examples of that type.

- Overconfidence
- Inertia
- Framing



# Why We Need Nudges

## Human Fallibility

- Heuristic

### Representativeness heuristic

How likely A belongs to category B = How similar A is to their image or stereotype of B

- Overconfidence
- Inertia
- Framing

# Why We Need Nudges

## Human Fallibility

- Heuristic
- Overconfidence

People are unrealistically optimistic.

- Inertia
- Framing

# Why We Need Nudges

## Human Fallibility

- Heuristic
- Overconfidence
- Inertia

### Loss Aversion

People are loss averse.

- Framing

# Why We Need Nudges

## Human Fallibility

- Heuristic
- Overconfidence
- Inertia

### Status Quo Bias

People have a more general tendency to stick with their current situation.

- Framing

# Why We Need Nudges

## Human Fallibility

- Heuristic
- Overconfidence
- Inertia
- Framing

Choices depend, in part, on the way in which problems are stated.

# Why We Need Nudges

## Human Fallibility

- People are nudge-able.
- Choices are influenced in ways that would not be anticipated in a standard economic framework.

# Why We Need Nudges

## Social Impact

Humans Learn from others or are easily nudged by others.

### Information

If many people do something or think something, their actions and their thoughts convey information about what might be best for you to do or think.

# Why We Need Nudges

## Social Impact

Humans Learn from others or are easily nudged by others.

### Peer Pressure

People think others are closely paying attention to what they are doing.



# Why We Need Nudges

## Social Impact

Humans Learn from others or are easily nudged by others.

### Priming

Subtle influences can increase the ease with which certain information comes to mind.

# Why We Need Nudges

## Social Impact

The three social influences that we have emphasized — information, peer pressure, and priming — can easily be enlisted by private and public nudgers.

# Why We Need Nudges

## Benefit from Nudges

Situation in which people are least likely to make good choices

- Lack of self-control
- Rare, difficult choices
- Lack of feedback
- Inability to forecast for the unfamiliar

# Why We Need Nudges

## Benefit from Nudges

People will benefit from nudges for decisions that are difficult and rare, for which they do not get prompt feedback, and when they have trouble translating aspects of the situation into terms that they can easily understand.

# How Nudges Influence Choice Architecture

- iNcentives
- Understand mappings
- Defaults
- Give feedback
- Expect error
- Structure complex choices

## How Nudges Influence Choice Architecture

- iNcentives

Good choice architects can take steps to direct people's attention to incentives.

- Understand mappings
- Defaults
- Give feedback
- Expect error
- Structure complex choices

# How Nudges Influence Choice Architecture

- **iN**centives
- **U**nderstand mappings

A good system helps to improve their ability to map and hence to select options that will make them better off.

- **D**efaults
- **G**ive feedback
- **E**xpect error
- **S**tructure complex choices

## How Nudges Influence Choice Architecture

- **iNcentives**
- **Understand mappings**
- **Defaults**

Good defaults are selected to make the chooser's life easier or better.

- **Give feedback**
- **Expect error**
- **Structure complex choices**



## How Nudges Influence Choice Architecture

- **iN**centives
- **U**nderstand mappings
- **D**efaults
- **G**ive feedback

Well-designed systems provide feedback to help Humans improve their performance.

- **E**xpect error
- **S**tructure complex choices

## How Nudges Influence Choice Architecture

- **iN**centives
- **U**nderstand mappings
- **D**efaults
- **G**ive feedback
- **E**xpect error

A well-designed system expects and forgives its users to make mistakes

- **S**tructure complex choices

## How Nudges Influence Choice Architecture

- iNcentives
- Understand mappings
- Defaults
- Give feedback
- Expect error
- Structure complex choices

As choices become more numerous and more complex, choice architects are much more likely to influence choices.

# How Nudges Influence

## Benefit from Nudges

With an eye on these **NUDGES**, choice architects can improve the outcomes for their Human users.

# Example : Saving for Retirement

## 401(k) Plans

- Defined-contribution plans in the United States
- Completely portable, flexible,
- But require initiative

## Example : Saving for Retirement

Standard Economic Theory

- People solve complicated mathematical problems easily.
- People have enough willpower to implement relevant plans.
- Econs do, but Humans DON'T!
- We need nudges.

## Example : Saving for Retirement

### Nudge Helps Enrollment

- Automatic enrollment plans
- Forced choosing plans

## Example : Saving for Retirement

### Nudge Helps Enrollment

- Automatic enrollment plans

#### With default option

Enrolled in the plan, unless actively asking to opt out.

- Forced choosing plans



## Example : Saving for Retirement

### Nudge Helps Enrollment

- Automatic enrollment plans
- Forced choosing plans

#### Without default option

Require to make an active decision about whether to join the plan.

## Example : Saving for Retirement

### Nudge Helps Low Saving Rates

#### Three behavioral biases

- People have more self-control regarding future plans than immediate behavior.
- People are loss averse in nominal dollars.
- Retirement savers display strong inertia.

#### Three solutions

- Workers were asked whether to join a program that in a month or two, not today.
- Increases in the savings rate would be timed to coincide with pay increases.
- Once joined, remained in place until actively opted out.

## Example : Saving for Retirement

### The Role of the Government

The primary role government needed to play was getting out of the way by reducing the barriers to adoption of these programs.

## Opinions

- It is legitimate for choice architects to try to influence people's behavior in order to make their lives longer, healthier, and better.
- Universality and particularity
- Designer's self-discipline