Behavioural Economics – A new branch

What is the issue?

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- Richard Thaler (2017 Nobel economic laureate) is credited for having developed ‘Behavioural Economics’ as separate stream.
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- Behavioural Economics deals with ‘nudge’ philosophy and how it can be used to encourage certain outcomes.
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Why is it about?

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- The irrationality of human mind is what results in the increase in the sales of a commodity when its price is changed from Rs.1,000 to Rs.999.99.
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- Often, even perfectly rational people tend to behave irrationally.
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- Humans were found to be irrational in a systemic way & hence economists always believed it could be theorised.
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- Mr.Thaler showed that even small departures from rationality can have big impacts and that classical economics doesn’t capture this.
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- His work to study the interplay of human psychology and economic forces contributed to the development of behavioural economics.
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Where can it be applied?

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- Its most prominent application is in constructing choices.

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- The way in which a choice is framed has been found to influence chooser behaviour and skew outcomes.
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- Choice architects can thus ‘nudge’ choosers in a direction of their preference by designing choices accordingly.
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- For instance, by making a pension plan the default option, while giving people the choice to opt out, people can be ‘nudged’ towards subscribing it.
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- In dealing with unhealthy eating habits, an extreme solution would be banning fatty food or imposing an additional tax on such food.
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- On the contrary, nudging could be employed to promote healthy eating by more prominently displaying the healthier food options in shops.
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How are its larger implications?

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- Development policies become more effective when combined with insights into human behaviour.
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- The behaviour-informed approach to policy-making recognises two systems of thinking – automatic & analytical.
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- **Herding -** When people are nudged to think quickly, a herd behaviour usually develops and automatic thinking happens.
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- Social media phenomena are largely rooted in automatic thinking were people are coerced into subscribing to the trend.
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- People might actually change their views when they are given time to think analytically.
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- **Moderating Opinions -** In an experiment in the U.S. people were asked in distinct ways, for their views on controversial topics.
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- In the first approach, people were asked why they held certain believes - which recieved argumentative & polarisation responses.
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- Later, when the same people were asked to explain how their believes

worked - more softer answers came up.
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Source: The Hindu

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