



MCESD | CIVIL SOCIETY COMMITTEE | CONSUMER SECTION
Dr. Marie Briguglio | 8 May 2017

Key messages

1. Consumers make choices: some are harmful to society, some to consumers themselves
-- market failure (externalities) and behavioural failure
2. Not all choices are rationally thought out
-- Habits, impulsivity, peer-effects, salience, anchoring...
3. This has implications for consumer policy
-- reliance on rational response weakens policy
-- role for nudges in policy
-- role for regulation of "dark" nudges
4. There are several opportunities for application in Malta
-- e.g. vehicle/fuel purchase, food & property

Economics
Scarcity
Choice

The main tenants of rational decision-making:
Actors ACCESS INFO, ASSESS IT AND ACT ON IT
If benefits greater than costs: then ACT
UNDERPINS ECONOMICS, PUBLIC POLICY, MANAGEMENT

IMPLIES INCENTIVES AND INFORMATION
WORK!

FREE MARKETS BEST ALLOCATION OF RESOURCES



POLICY IMPLICATIONS OF MARKET FAILURE?

Information
Education
Pricing (PPP)
Regulation
Infrastructure

To fix MARKET failure
and bring economy back on track

ABOUT MAKING DECISIONS

The rational way...

Comparing costs and benefits, now and in future, for us and others we care about.

The less rational way...

Automatically, intuitively, and often correct...

Human beings are “cognitive misers”

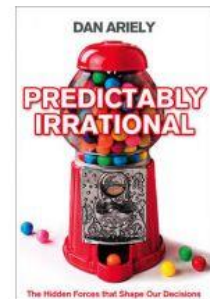
Fiske and Taylor 1984

TEST

$$24 \times 18 =$$

Humans use certain rules of thumb, mental shortcuts, or simply rely on inherent behavioural biases to make decisions

Kahneman and Tversky 1974



BEHAVIOURAL HEURISTICS

We fall into habits
 We stick with the status quo
 We are short-sighted
 We fear losses more than we love gains
 We follow the herd
 We are mostly influenced by what we see
 We are easily primed into decisions

Especially when...
 Decisions are Infrequent (car, property)
 Delayed effect, poor feedback (food)
 Wrong time (after work?) distracted, angry..

What if we consider that consumers are actually human?
 Re-thinking how people *actually* make decisions,
 suggests re-thinking
 ... how to design interventions

NUDGES

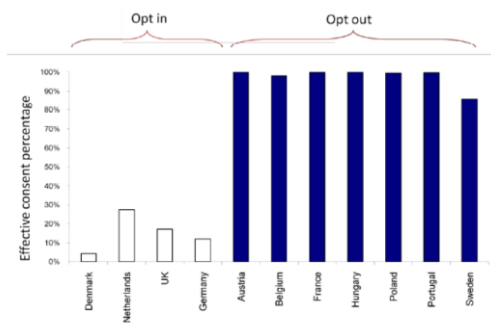
Attention to information and incentives but also...

Who delivers policy message?
 What is the perceived norm?
 Can we make good behaviour the **DEFAULT**?
 Can we introduce commitment devices?
 Can we **SIMPLIFY** the right choice?
 Can we check for predatory priming?
 Can we control dark nudges like present benefits?

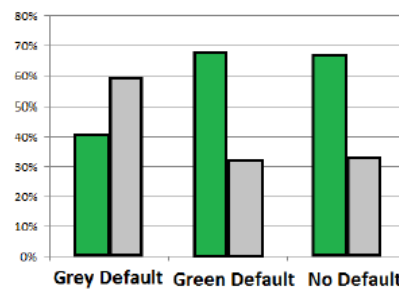
Can we teach **PUBLIC** policy a few
 behavioural tricks?

Front runners: USA, UK, EU

Can we regulate predatory behavioural
 tricks?

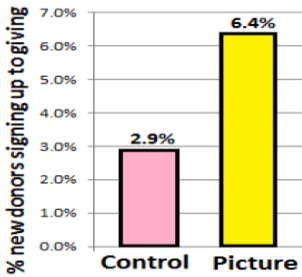


DEFAULT CHOICES IN ORGAN DONATION Johnson and Goldstein 2003



Pichert & Katsikopoulos (2008) DEFAULT IN ELECTRICITY CONSUMPTION

Part 3



The BIT tested whether using social proof could increase charitable giving among employees. The control group received an e-card from an existing donor simply explaining why that person donates and asking to join them. The treatment group received the same card but with an attached picture of the existing donor. **Picture increased the number of new donors**

e.g. make it salience, make it easy in FOOD

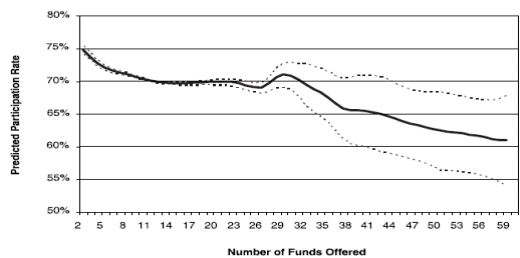
SALIENCE: In contrast to McDonald's old policy of asking whether you want to super-size your order, these 3 field experiments asked customers in a Chinese restaurant if they **wanted to down-size their portions** of side dishes. The 14-33% of customers who did so did not compensate by ordering more in other areas and ate 200 less calories on average.

SALIENCE & EASE: Hanks et al. looked at encouraging healthier eating in school lunchrooms through **strategic placement of certain foods**. In the healthier line, sales of healthier food increased by 18% and grams of less healthy food consumed decreased by 28%.

CONSIDER UNINTENDED CONSEQUENCES



The Relationship Between Participation in 401(k) and Number of Funds Offered



E.g. from Botti et al 2006: 800,000 eligible employees at 657 companies, 401(k) plans ranged from 2 to 60 investment options, As choices increased what happened to the likelihood of investing?



FOOD & DRINK

Market Failure?

- Food Waste
- Resource depletion

Behavioural Failure?

- Low nutrition food, obesity
- Smoking
- Alcohol
- Low spend on education

Policy Implications?

- Polluter pays
- Labelling
- Default options
- Availability
- Teach decision making skills
- Control dark nudges

PASSENGER VEHICLES, FUEL, REPAIRS

Market Failure?

- Traffic Congestion
- Air Pollution
- Accidents

Behavioural Failure?

- Overspending on vehicle repair,
- Herd, default option
- Low salience of walking benefits
- Drink driving



Policy Implications?

- Polluter pays (e.g. per mile, per emission)
- Change the default (e.g. infrastructure),
- Make it less automatic (e.g. loan cooling off),
- Control dark nudges
- Teach decision making skills (de-biasing)

E.g. of practical consumer education

- * CRITICAL THINKING/MINDFULNESS vs PEER PRESSURE, MEDIA INFLUENCE
e.g. STOP TO THINK.
- * PROMOTION OF UNDERCONSUMED GOODS/SERVICES
Exercise, art, social interaction, volunteering, learning
- * DECISION MAKING GRID



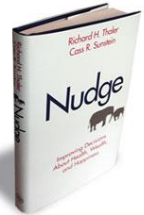
Resources

Hastings G. Social Marketing: Why should the devil have all the best Tunes? (2007) Elsevier, Oxford

Thaler and Sunstein "Nudge: Improving Decisions about Health, Wealth, and Happiness". (2008) Yale University Press

Briguglio M. 2016 "Humans Behave!" in *Outreach On Climate Change and Sustainable Development, Edition COP 21 Paris, 5. Business Investment and Innovation*, Available:

<http://outreach.stakeholderforum.org/index.php/previous-editions/cop-21-paris/edition-5-business-investment-and-innovation/11950-humans-behave>



Tutor

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Lecturer in behavioural Economics, Research Methods, Social Marketing, Environmental Economics (University of Malta). | PhD Economics (Stirling); MSc Environmental and Resource Economics (UCL), BA Honours Economics (Malta). | On-going research on circular economy (by Horizon 2020), environmental indicators (Environment and Resources Authority), cultural participation (Malta Arts Council, European Capital of Culture). | Previously Deputy Director at the Malta Environment and Planning Authority (Environment) and National Focal point to the United Nations Framework Convention on Climate Change. | Award winning television writer/producer. | Active in behavioural change campaigns, outreach, co-Chairperson of the Forum for Active Community Engagement within the President of Malta's Foundation for the Wellbeing of Society. | Representation on several boards.
| **Main areas of expertise: Behavioural Economics, Environmental Economics, Market Failure, Communication, Social Marketing.**

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