

Economics in the Real World for Pre-University Students

Abhinay Muthoo

University of Warwick

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Session #3: Insights from Behavioural Economics for Covid-19

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Desired Behaviour and Human Nature

- **Public Health Messages** such as: wash your hands; social distancing; no gatherings with friends or family; go out for essential reasons only; lockdowns; etcetra
- **Self-Interest Issues** – others can do this but I will deviate...
- **Enforcement Constraints** – not easy to enforce totally at all
- **Human Nature: Cognitive biases; Emotions; Survival mode**
- **Neuroscience** – how the brain works....
- **Policy implications** – to leverage these characteristics and traits of humans to then get them to do what is “right”
- **Solving the Pensions Crisis by changing the default!**

Why behavioral economics?

Economics meets Psychology

Homo-economicus is an “agent” who:

1. Is a “maximizer”: maximizes his “payoffs”, be that profit or money or fame or power or expected utility...
2. Updates his beliefs “rationally” - that is, according to *Bayes rule*.
3. Is selfish and without emotion
4. Does not care about the consumption and welfare of others.



This approach has yielded fantastic insight, but...

What behavioral economics does?

It adds to the standard model of economics some reality about how humans behave.

In particular, it adds,

- **Bounds on rationality,**
- **biases in the interpretation information,**
- **interdependent preferences,**
- **emotions,**
- **Cognitive biases**

What about policy?

Nudge Units

- By its nature behavioral economics should be relevant in all areas of policy **such as during a pandemic**
- If policy is about **influencing individuals** (even if they are within a corporate or other structure) then behavioral economics is crucial to get things right.
- Policy makers should perhaps be worried about a science built on **Friedman's positive methodology**. Behavioral economics is *diametrically opposite* to a positive methodology.



WE COULD GET THE UNEMPLOYED
TO MARK THE SATS TESTS 5

A not too serious example

- A problem for primary schools and nurseries is parents picking their children up late. The school must play the role of baby sitter.
- Suppose that we fine parents for picking their children up late? [so using the “price” mechanism to incentivize]
- The result can be more parents leaving their children late because.....?:
- The fine makes it ‘ok’ to put a burden on the school.

The results of an experiment

Gneezy and Rustichini (2000) report an experiment in day care centres in Haifa, Israel in 1998. In week 4 a fine was introduced and in week 17 it was removed.

