

Economics in the Real World for Pre-University Students

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Reciprocity and Fairness

- **Reciprocity**: many people seem to desire reciprocity: ‘If someone does good (or bad) to me then I want to do good (or bad) to them.’
- **Fairness**: people care about outcomes, relative to others: ‘Why should I get less than him’, ‘Why should I get more than him?’
- Why is this different to the ‘standard model’.

Confirmatory Bias

- **People tend to be too inattentive to new information contradicting their hypothesis:**
 - They can ignore contradictory evidence, and
 - Misread it as supporting their hypothesis.

Optimism Bias

When it comes to predicting what will happen to us tomorrow, next week, or 50 years from now....

we *overestimate* the likelihood of positive events, and *underestimate* the likelihood of negative events

https://www.ted.com/talks/tali_sharot_the_optimism_bias

Framing Effects: Another Example

- **600 lives are threatened.**
 - Action (a) saves 200 lives.
 - Action (b) saves all 600 lives with probability $1/3$ and saves nobody with probability $2/3$.
- Which action would you choose? (a) or (b)?

Framing Effects: Yet Another Example

- 600 lives are threatened.
 - Action (c) causes 400 to die.
 - Action (d) causes 600 to die with probability $\frac{2}{3}$ and causes nobody to die with probability $\frac{1}{3}$.
- Which action would you choose? (c) or (d)?

Framing Effects: Comparison

- 600 lives are threatened.
 - Action (a) saves 200 lives.
 - Action (b) saves all 600 lives with probability $1/3$ and saves nobody with probability $2/3$.
- 600 lives are threatened.
 - Action (c) causes 400 to die.
 - Action (d) causes 600 to die with probability $2/3$ and causes nobody to die with probability $1/3$.

These problems are identical, apart from how they are framed. Yet the most common (highlighted) choices are different.