

INCENTIVES & HUMAN BEHAVIOR

MPA 612: Economy, Society, and Public Policy

January 23, 2019

*Fill out your reading report
on Learning Suite*

PLAN FOR TODAY

Fixing collective action problems

Fun and games

Heuristics and shortcuts

Nudges

FIXING COLLECTIVE ACTION PROBLEMS

**Perfectly rational
individual behavior can
create irrational and
inferior social outcomes**



COOPERATION IN STAG HUNT LAND

**The payoffs for cooperation
are greater than the payoffs
for defection**

**There's still an
incentive to defect**

WHAT STOPS US FROM COOPERATING?

Uneven payoffs

Lack of assurance

Preference falsification

Dishonesty

Selfishness

These are all rational things that
utility-maximizing people do!

HOW DO WE FIX THIS?

Altruism

Repetition and iteration

Infinitezation

Punishment

Norms

Institutions

FUN AND GAMES

Go to
andhs.co/quiz1
and take a quiz

Go to
andhs.co/quiz2
and take a quiz

Go to
andhs.co/quiz3
and take a quiz



$$8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1$$

00:20

$$1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8$$

00:20

HEURISTICS AND SHORTCUTS

HUMAN RATIONALITY

**People are rational and
always maximize utility**

**Except when they aren't
and they don't**

BOUNDED RATIONALITY

**We can't process all
information, but we can
(and do!) filter and
privilege information**

COMMON HEURISTICS

Representativeness

Availability

Adjustment and anchoring

Time issues

REPRESENTATIVENESS

We make judgments based on how well information represents the norm

Ignore base rates, think backwards,
start with exceptions and stereotypes

REPRESENTATIVENESS

Insensitivity to prior probability of outcomes

Insensitivity to sample size

Misconceptions of chance

Misconceptions of regression

AVAILABILITY

We make judgments based on how quickly other examples come to mind

AVAILABILITY

**Biases due to the
retrievability of instances**

Biases of imaginability

Illusory correlation

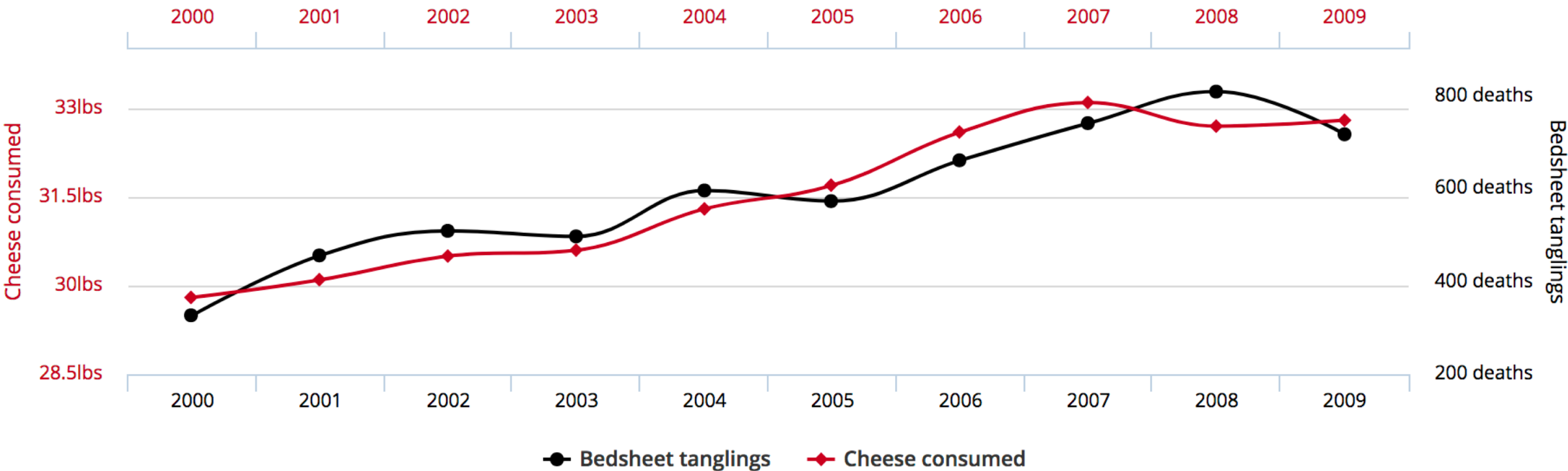


Per capita cheese consumption

correlates with

Number of people who died by becoming tangled in their bedsheets

Correlation: 94.71% (r=0.947091)



tylervigen.com

Data sources: U.S. Department of Agriculture and Centers for Disease Control & Prevention

ADJUSTMENT & ANCHORING

Different starting points yield estimates that are biased toward the initial values

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Today

\$100

December 25,
2020

Next week

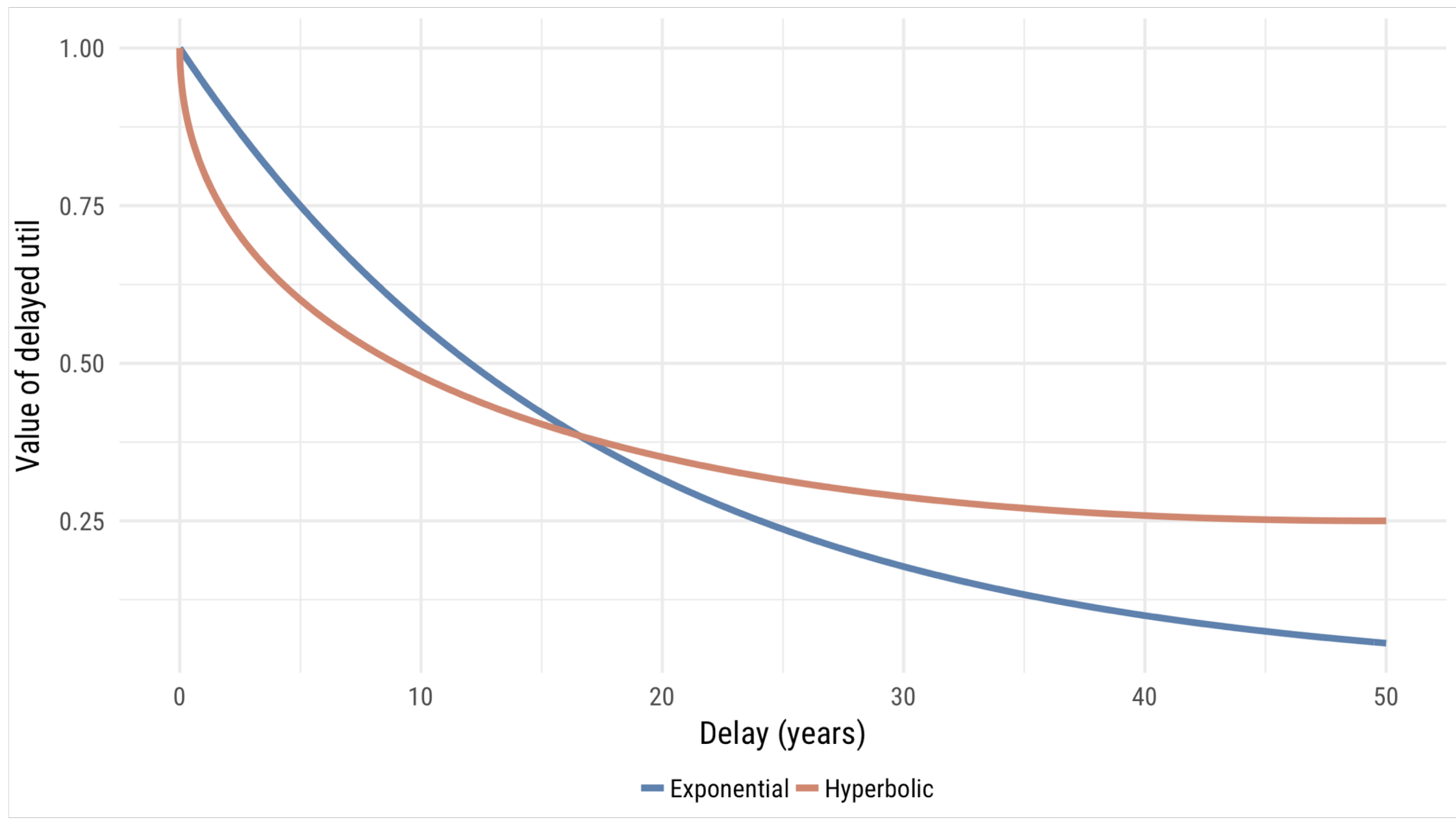
\$110

December 31,
2020

TIME ISSUES

Hyperbolic discounting

We prefer immediate payoffs
more than future payoffs



THE BATTLE WITHIN US

Intrapersonal strategic conflict

Our present selves force their preferences on our future selves

Chips and salsa

Saving for retirement



COMMITMENT DEVICES

Deadlines and coauthors

Exercise pacts

Save More Tomorrow

NUDGES

WHAT IS A NUDGE?

**Adjusting choice architecture
in a way that helps people
make better choices**

Libertarian paternalism

Why nudge?

Why not nudge?

CONDITIONS FOR NUDGING

Disconnect between costs and benefits

Costs now, benefits later

Benefits now, costs later

Choices are complex

Mortgages

Choices are rare

Buying a car

Getting married

Low feedback

High cholesterol diet

Poor knowledge

Health plans

Examples of nudges?