

CYPRUS ECONOMIC SOCIETY
BEHAVIOURAL ECONOMICS
NUDGING IN THEORY AND PRACTICE

18 Nov 2021



INTRODUCTION

Marios Clerides

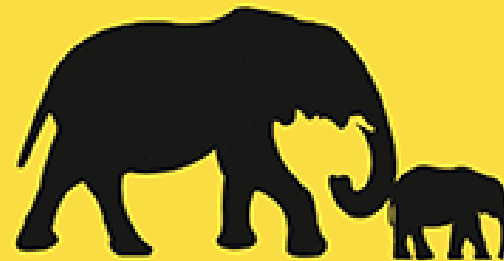
MORE THAN 1.5 MILLION COPIES SOLD

RICHARD H. THALER

WINNER OF THE NOBEL PRIZE IN ECONOMICS

and CASS R. SUNSTEIN

WINNER OF THE HOLBERG PRIZE



Nudge

NEW YORK TIMES Bestseller

Improving Decisions About
Health, Wealth, and Happiness

"One of the few books . . . that fundamentally changes the way I think about the world." —Steven D. Levitt, coauthor of FREAKONOMICS

Psychology

(what marketing knew all along and economists turned their noses up to)



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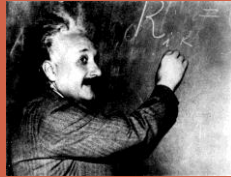
ΤΟ ΠΑΣΤΙΤΣΙΟ ΤΗΣ ΜΑΜΑΣ

Randomness



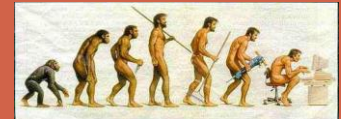
Homo “Economicus” vs. Homo Sapiens

Homo “Economicus”



- Rational
- Non Emotional
- Optimizer
- Super Calculator
- Standalone

Homo Sapiens



- Bounded Rationality
- Two Minds
 - Heuristics & Biases
- Probability blind
- Social-Culture
 - Herding behaviour
 - Media/Fake News
 - ✦ Influencers/Gurus

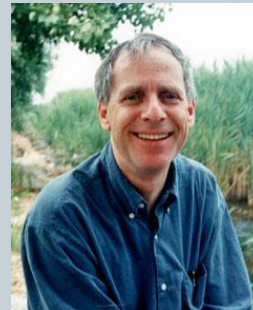
Milestones



- **In 2002**, psychologist Daniel Kahneman was awarded the prize "for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty" **Heuristics & Biases** .
- **In 2013**, economist Robert J. Shiller received the Nobel Memorial Prize in Economic Sciences "for his empirical analysis of asset prices" (within the field of behavioural finance)
- **In 2017**, economist Richard Thaler was awarded the Nobel Memorial Prize in Economic Sciences for "his contributions to behavioural economics and his pioneering work in establishing that people are predictably irrational in ways that defy economic theory." **The Nudge Person**

Heuristics & Biases

- Anchoring
- Availability/Familiarity
- Representativeness
- Diversification
- Escalation / Sunk Cost
- Affect
- Confirmation Bias
- Overconfidence
- Habituation
- Endowment



Amos Tversky



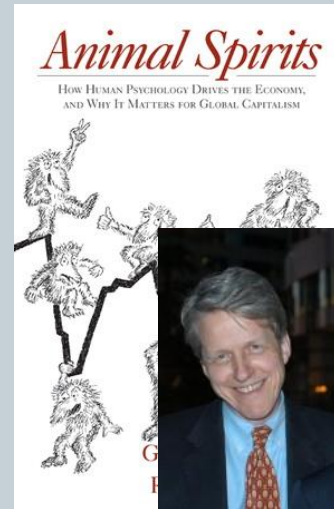
*David
Kahneman
(Nobel 2002)*

Animal Spirits

How Human Psychology Drives the Economy and Why it Matters for Global Capitalism



“The real problem...is the conventional wisdom that underlies so much of current economic theory. So many members of the macroeconomics and finance profession have gone so far in the direction of “rational expectations” and “efficient markets” that they fail to consider the most important dynamics underlying economic crises. Failing to incorporate animal spirits into the model can blind us to the real source of the trouble”



*Robert
Shiller*

(Nobel 2013)

*George
Akerlof*

(Nobel 2001)

Behavioural Economics

“Nudge”



- A nudge, is any aspect of the choice architecture that alters people's behaviour in a predictable way without forbidding any options or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid. Nudges are not mandates. Putting fruit at eye level counts as a nudge. Banning junk food does not
- Several nudge units exist around the world at the national level (UK, Germany, Japan and others) as well as at the international level (OECD, World Bank, UN).



*Richard Thaler
(Nobel 2017)*