Section 2: Individual Economic Decision making

Choice architecture(influencing choices by the way they are presented)
-Framing: food labelling, price info is done weekly
-Nudges: 5 a day campaign,images on cigarettes boxes, position of salads in cafeteria
-Default choice: organ donation, pension scheme enrollment
-Mandated choice: different bins for recycling
-restricted choice: public smoking ban, healthy school food choices

Evaluation of choice architecture
-likely to only change minor behavior
-effectiveness may only be seen in the long term
-shouldn't only use traditional policies
-must weigh costs and benefits
-correcting imperfect information is the most
common and successful policy
-used to enhance areas where traditional
models fail to provide concrete explanations
-govt could lack info and make imperfect
decisions leading to govt failure

Key words
-Utility
-Utility maximisation
-Rational consumers
-Marginal utility
-Total utility
-Law of diminishing marginal utility
traditional:assumes rationality
behavioral:disputes rationality,
economic decision are biased
-Bounded rationality: 3 unavoidable constraints = are imperfect info, time, and limited metal processing
-Bounded self control: good intentions but lack discipline to see them through

Biases in decision making
1-Availibilty bias
2-Anchoring
3-Biases on social norms
4-Rules of thumb(heuristics)
5-Loss aversion
6-Altrusim and fairness
7-Commitment
8-Herding

Examples
1-ignoring of info related to how harmful smoking is for health
but using examples e.g. relatives have been smoking all their lives
2-comparing of price of cars rather than features
3-tipping and drinking culture
4-choosing the same drink because they enjoyed it before
5-not placing money into a risky investment
as there is a possibility of losing money
6-donating to charity, firms that want to
employ more workers to reduce unemployment
7-dieting, saving, exercising
8-Bull market where many invest in a
certain curreny that is deemed to be stable and reliable