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Behavioral Economics for Better Decisions

BY OLIVIA WILLIS, ALL IN THE MIND, ABC RADIO NATIONAL, SEPTEMBER 24, 2015

SUMMARY

- Humans misbehave! We're irrational, indecisive and passionate, yet conventional economic theory assumes that we will always act logically (doesn't take into account the "human factor").
- Behavioral economics (BE) simply; if you want to encourage someone to do something, make it easier for them. Figure out the barriers that stop them and remove them.
- Foundation for BE is research from Amos Tversky and Daniel Kahneman. Key Findings: We use simple rules of thumb to make judgments and they lead us to making systematic errors.
- We value the things we own (assets, previous experiences, and previous decisions) more than the things we don't own (more assets, better decisions, better outcomes). This causes the status quo!
- "We are recognizing that people are lazy and that they take the easy way. So make the easy way better" (Professor Richard Thaler, University of Chicago, Leader in BE)
- Key to success is creating "nudges": small features in the environment that attracts our attention and influences our behavior.
- "Nudging" as a technique can be used to help people make better personal, professional, and business decisions.

Behavioural economics for better decisions

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Olivia Willis

IMAGE: WE DON'T ALWAYS BEHAVE THE WAY ECONOMISTS PREDICT (DAVID BLACKWELL, FLICKR CC 2.0 BY-ND/2.0)

Humans 'misbehave'—we're irrational, indecisive and passionate, yet conventional economics assumes that we will always act logically. Can using a more realistic understanding of human behaviour nudge us to change our way of thinking? **Olivia Willis** reports.

OUR POINT OF VIEW (POV)

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Acknowledging our overdependence on intuition takes courage because we value what we have (intuition) more than what we don't have... finding/taking the time to make better decisions.

- We are all human!
- Daily demands and pressures force us "out of survival" to rely on rules of thumb (intuition) to make decisions (big and small).
- Intuition is based on the past (experiences, bias, successes, failures, etc.). Defaulting to intuition as a convenience (readily available) puts us unknowingly in harm's way (systematic errors).
- Acknowledging our overdependence on intuition takes courage because we value what we have (intuition) more than what we don't have ... finding/taking the time to make better decisions.
- Over dependence on intuition puts individuals and their organizations at considerable risk.
- All of us are looking for "quick and easy" (lazy ways) to improve our lives (personally, professionally, business).
- Decision-making standards (mind-set, skill-set, tool-set) exist to provide "nudges" (quick, easy, lazy ways) to help individuals and organizations make systematically better business decisions.
- By serving the "lazy in all of us", forward thinking/acting leaders are putting behavioral economics (BE) to work with their teams to produce better economic (business) results!

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