OVERVIEW

Economics is the study of human behavior and decision-making. In classical economics, economic agents are assumed to be rational and behave in accordance with utility maximization. However, the behavior of real-world agents (also called human beings) frequently does not conform to the expectations of rationality: our decisions are influenced by biases, imperfect attention spans, and emotions. To study human behavior in the real world, it is key to understand the psychology behind human behavior. Accordingly, behavioral economics blends insights from economics and psychology to study how people behave and make decisions.

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<thead>
<tr>
<th>IN CLASSICAL ECONOMICS...</th>
<th>IN BEHAVIORAL ECONOMICS...</th>
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<tbody>
<tr>
<td>People are rational and make choices that maximize their utility.</td>
<td>People are not always rational. However, some irrational behaviors are predictable. This predictability can be used as the foundation for behavioral interventions.</td>
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<td>People’s choices do not depend on how their options are described: wording effects do not exist.</td>
<td>People make riskier choices when their options are described in language that focuses on possible losses (as opposed to gains).</td>
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<td>People make consistent choices and do not change their mind because of irrelevant factors.</td>
<td>Seemingly irrelevant factors can nonetheless matter for the choices that people make.</td>
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<td>People are not influenced by default settings when they are asked to make choices.</td>
<td>Changing the default setting can have dramatic impacts on the choices people make.</td>
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WHY SHOULD POLICY-MAKERS CARE?

Behavioral Economics can help improve the design and delivery of government programs. Program design always requires making (implicit or explicit) assumptions about human behavior. It is difficult to get these assumptions right, because predicting human behavior is complicated. When people behave contrary to expectations (and they often do), programs are either less effective than intended or have unintended consequences. By taking into consideration some of the “predictable irrationality” of human beings, policy designers can improve the performance of their programs. In addition, by using the rigorous testing tools prevalent among behavioral economists (in particular, randomized control trials), policy designers can also check the accuracy of their assumptions and adjust their programs accordingly.

WHY SHOULD POLICY-MAKERS CARE?

• People are social animals: we care about the behavior and perceptions of other individuals in society. For example, we become more likely to engage in an action (for example, saving energy) if we believe that most of our peers also engage in it. Knowing this, policy-makers can sometimes change behavior by disseminating information about existing behavior patterns.

• Humans are creatures of habit. When trying to change behavior, policymakers should keep “habit formation” in mind, as habits can be a barrier to change – but on the flip side, a policy can be more successful if it creates habitual behaviors.

• People tend to be loss averse. Because we feel losses acutely, we tend to accept more risk when we are trying to avoid losses. Conversely, we are more risk averse when contemplating potential gains. These patterns of thought have implications for policy makers who are planning incentive schemes or communication strategies.

• We have limited cognitive abilities, and are frequently time-constrained. People can find it difficult to figure out the long-term consequences of a behavior, or they might struggle to follow the intricate instructions on a government form. Simplicity and ease of access can significantly affect the real-life impact of a public policy.

THE “NUDGE” AS A BEHAVIORAL TOOL

One key benefit of the behavioral economics approach is that it can be used to enhance the delivery of existing policy programs (as distinct from informing new policies). Instead of a policy intervention like a mandate/ban (e.g. making it illegal to drive a car without a seatbelt) or an incentive (e.g. higher tax on tobacco products), behavioral insights can inform program delivery and can therefore enhance the intended impact of existing public policy. Making changes to program delivery usually means changing the “choice architecture” faced by individuals. Such changes are known as “nudges,” and they take into account quirks of the human mind, such as our tendency to stick with default options or to do what most of our peers do. Due to their cost-effectiveness, broad applicability, and amenability to rigorous testing, nudges have become a popular tool for using behavioral economics insights in public policy.
### 10 NUDGES TO MAKE BETTER CHOICES

Cass Sunstein (2014)\(^1\) lists ten examples of nudges that policymakers can adopt to help people make better choices.

<table>
<thead>
<tr>
<th>Nudge Type</th>
<th>Example</th>
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<tbody>
<tr>
<td>1. <strong>DEFAULT RULES</strong></td>
<td>Automatic enrollment in retirement and health-care plans.</td>
</tr>
<tr>
<td>2. <strong>SIMPLIFICATION</strong></td>
<td>Making program enrollment forms less complex to promote take-up.</td>
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<tr>
<td>3. <strong>SOCIAL NORMS</strong></td>
<td>Informing individuals that most people in their community or reference group do not smoke.</td>
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<tr>
<td>4. <strong>EASE &amp; CONVENIENCE</strong></td>
<td>Making low-cost options of healthy foods more visible and/or accessible.</td>
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<td>5. <strong>DISCLOSURE</strong></td>
<td>Disclosing the full cost of credit cards or the environmental costs of energy use.</td>
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<td>6. <strong>WARNINGS</strong></td>
<td>Including text and graphic pictures on cigarette packages.</td>
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<tr>
<td>7. <strong>PRE-COMMITMENT STRATEGIES</strong></td>
<td>Encouraging people to commit in advance to a future smoking cessation program.</td>
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<tr>
<td>8. <strong>REMINDERS</strong></td>
<td>Sending text message reminders to students about completing college assignments.</td>
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<tr>
<td>9. <strong>IMPLEMENTATION INTENTIONS</strong></td>
<td>Asking questions that elicit specific plans about future behavior such as “When are you going to the grocery store to buy more fruits and vegetables?”</td>
</tr>
<tr>
<td>10. <strong>INFORMING PEOPLE ABOUT THEIR OWN PAST CHOICES</strong></td>
<td>Including information about past expenditures on healthcare or electric bills.</td>
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BEHAVIORAL INTERVENTIONS TO ADVANCE SELF-SUFFICIENCY (BIAS) – ACF
The Administration for Children and Families’ (ACF) BIAS Project, launched in 2010, is the first large program in the United States that has used the tools of behavioral economics to improve the well-being of low-income individuals and families. This umbrella project includes multiple individual interventions, some of which are:

- **Increasing Incarcerated Noncustodial Parents’ (NCP) Applications to Modify Their Child Support Payments.** This intervention entails making modifications to an existing child support program operated by the Family Initiatives Section within the Texas Office of the Attorney General’s (OAG’s).

- **Child Support Division.** The program invites a select group of incarcerated noncustodial parents to request a child support order modification on the basis of a substantial change in their financial circumstances. In the modification proposed by the BIAS team, individuals were randomly assigned to either a treatment or a control group. The control group continued to receive the same materials from the OAG as before, whereas the treatment group received a set of revised materials that included, among other things, a checklist to support plan-making and a reminder postcard. This intervention aims to increase the number of incarcerated NCPs who submit complete applications for order modifications in response to the OAG’s invitation.

- **Increasing Engagement with Job Search Assistance.** The BIAS team is modifying an existing job search assistance program provided by Asian Human Services, a social service agency in Chicago. The program provides employment-related services to TANF participants, aiming to increase participants’ self-sufficiency through work. The BIAS team is proposing interventions based on the hypothesis that increasing clients’ engagement with the job search assistance program could lead them to become job-ready more quickly, attend a higher percentage of mandatory job search sessions, apply to more full-time jobs, and, ultimately, find regular employment at a higher rate.

- **Increasing Willingness to Wait: The National Domestic Violence Hotline (NDVH) addresses domestic violence issues by providing support and crisis intervention services via its 24-hour telephone hotline. The BIAS team is applying behavioral diagnosis and design to the NDVH call center process to minimize the number of callers who hang up before reaching an advocate (an NDVH staffer).**

BEHAVIORAL INTERVENTIONS FOR LABOR-RELATED PROGRAMS – DOL
The Department of Labor’s (DOL) Behavioral Interventions for Labor-Related Programs Project is applying behavioral employment and savings programs, in the form of three interventions:

- **In partnership with the W.E. Upjohn Institute and Michigan Works!, the BI team is testing the effectiveness of emails encouraging people to join and complete the state’s Reemployment and Eligibility Assessment pilot program.**

- **In partnership with the Occupational Safety and Health Administration (OSHA), the BI team is testing whether changes to its citation process could increase employer responsiveness and reduce referrals to the OSHA National Office for costly enforcement and debt collection.**

- **In partnership with the Employee Benefits Security Administration and the DOL Human Resources Division, the BI team is testing whether targeted emails to DOL employees could encourage full participation in the federal Thrift Savings Plan.**

IMPROVING COLLEGE ACCESS AND AFFORDABILITY – DOE
In partnership with the Department of Education (DOE), the Social and Behavioral Sciences Team (SBST) assembled by President Obama provided technical expertise to researchers and the nonprofit uAspire aimed at increasing college enrollment among college-accepted low-income students by sending them personalized reminders via text messages. The text messages led to a 5.7 percentage point increase in college enrollment.
ABOUT IMPAQ

CURRENT BEHAVIORAL ECONOMICS PROJECTS AT IMPAQ

Evaluation of Customer Experience in American Job Centers.

Client: Department of Labor
- Collaboration with ideas42 to identify promising strategies for enhancing the customer experience at American Job Centers.
- Identify bottlenecks in service delivery and suggest behaviorally informed solutions.

Employment in Non-Traditional Occupations (NTO’s) for Women.

Client: Department of Labor
- Develop and evaluate messages to increase recruitment of women into non-traditional occupations.
- Evaluation approach will compare message themes, moving beyond the testing of individual messages to evaluating recruitment approaches.

WHAT IS NEXT FOR BEHAVIORAL INSIGHTS?

As the behavioral insights movement matures, next steps and challenges include:

- **Scaling up and generalizability.** Develop best practices for scaling up interventions and for systematically tracking conditions for successful replications.

- **From program delivery to design.** Behavioral insights have focused on improving the delivery of existing programs (e.g., increasing uptake of existing benefits or encouraging adherence to existing nutrition guidelines). An important next step will be to incorporate behavioral insights already at the policy-making stage.

IMPAQ’S MISSION IS TO CREATE ENDURING SOLUTIONS TO GLOBAL PROBLEMS THROUGH RIGOROUS APPROACHES AND INNOVATIVE THINKING.
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