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Organisation de Coopération et de Développement Economiques
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English - Or. English

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

Global Forum on Competition

THE ECONOMICS OF COMPETITION AND CONSUMER POLICIES

Presentation by Ms. Louise Sylvan

-- Session V --

This presentation is submitted by Ms. Louise Sylvan (Deputy Chair, Australian Competition and Consumer Commission) under session V of the Global Forum on Competition to be held on 21 and 22 February 2008.

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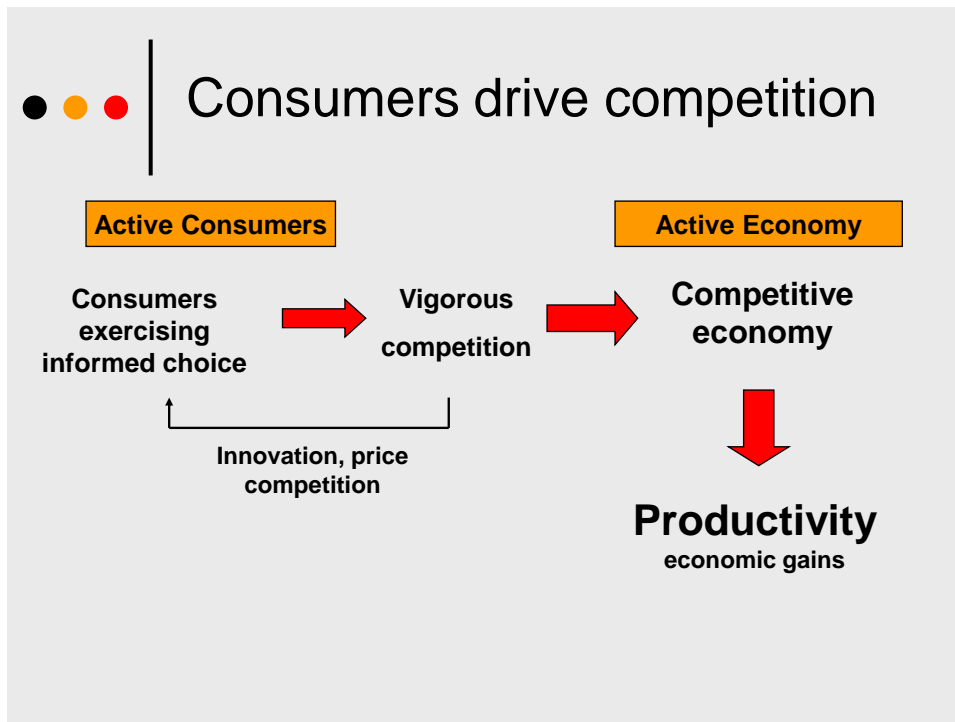
Economics for Consumer Policy

Louise Sylvan, Deputy Chair
Australian Competition and
Consumer Commission



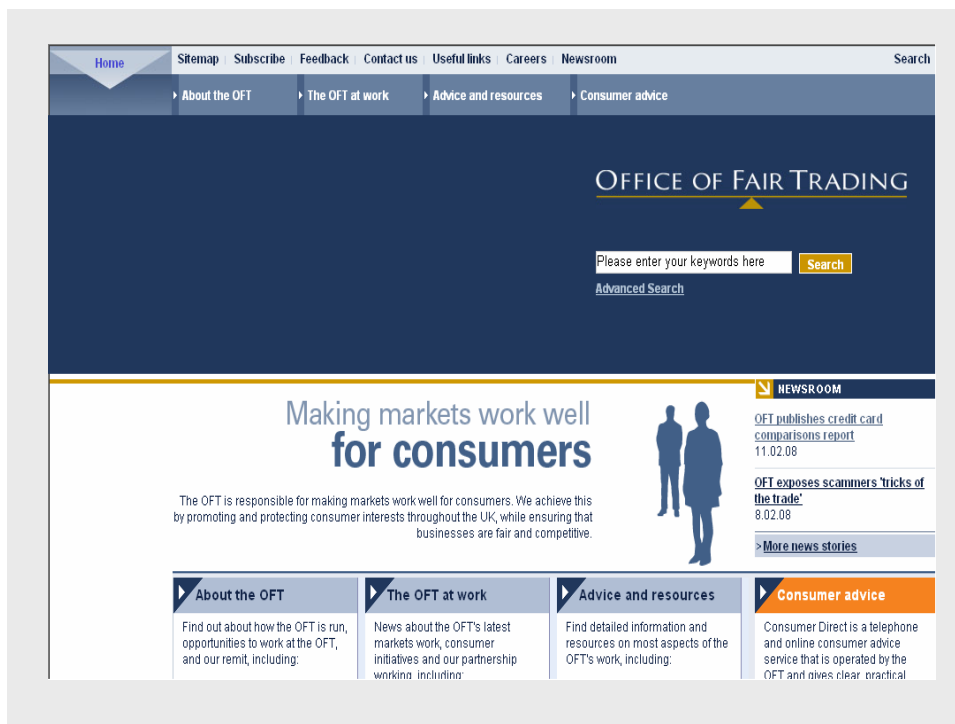
Economics for Consumer Policy – ongoing work of OECD Committee on Consumer Policy

- Creating a shared economic underpinning
- Toolkit
 - Unifying concepts and principles
 - Sharing research
 - building global better practice
- Consumer Protection and Empowerment:
Building a Toolkit for Policy Makers



Confident, informed and empowered consumers are the motor of economic change as their choices drive innovation and efficiency.

EU Consumer Policy strategy 2007-2013



● ● ● | Behavioural Economics

- Empirical evidence of consumer behaviour
- How people think or reason – how they come to their decisions

└─> Cognitive limitations and biases

Over-confidence (1)



90% of drivers believe and say they are better than average drivers

● ● ● | Over- confidence (2)



- 80% of people say they are well-informed in making financial decisions
- 59% of consumers in the same survey could not do a basic multiplication task ($20 \times \$350$)



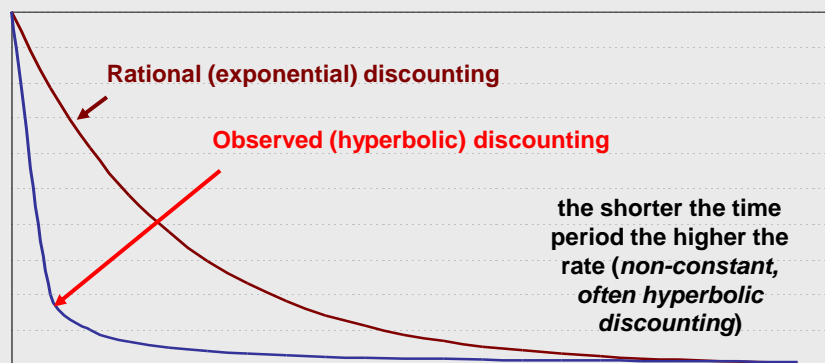
Behavioural Economics

- o Empirical evidence of consumer behaviour
- o How people think or reason – how they come to their decisions
 - ↳ Cognitive limitations and biases
- o Incomplete self-control

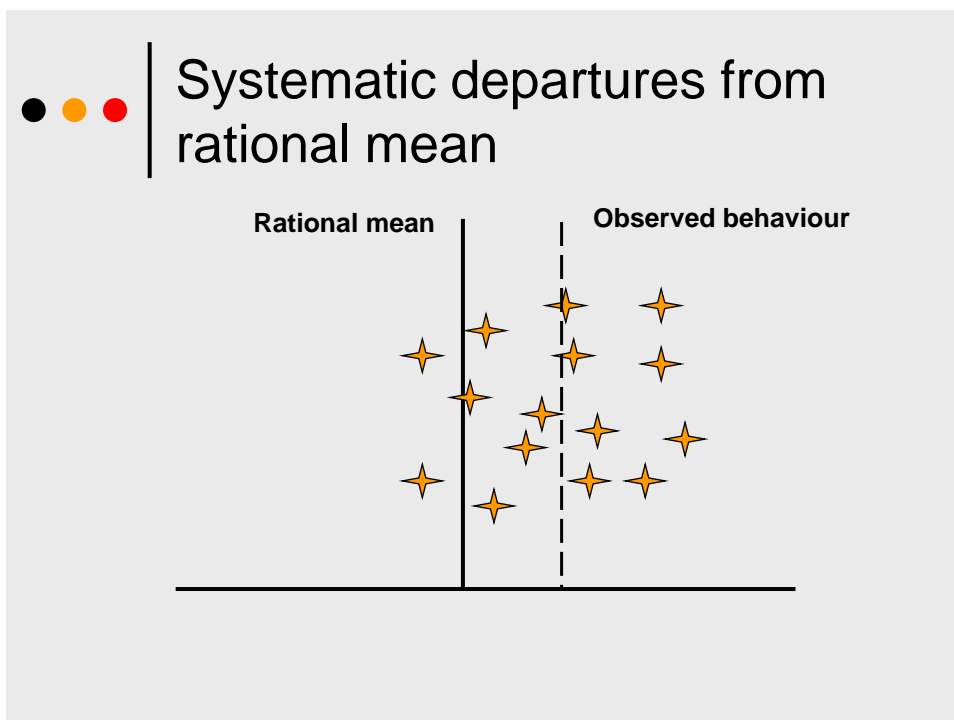
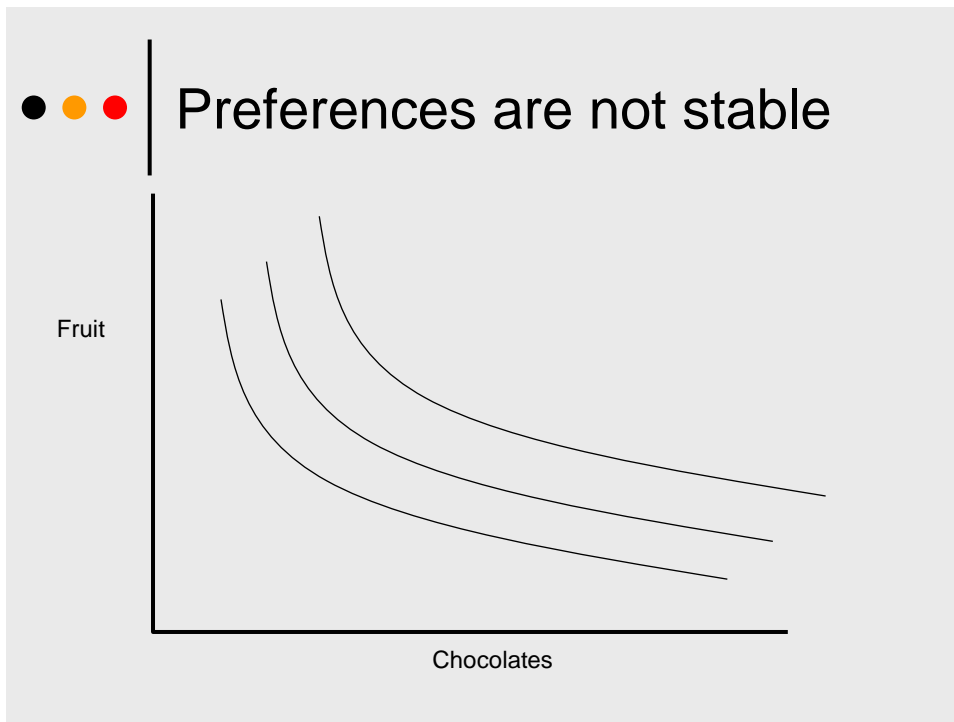


Hyperbolic discounting

Present value of future cost or benefit



Time before realization of cost or benefit





Powerful New Tools? Use of Behavioural Defaults

- Pennsylvania
 - Auto insurance
 - Option of limited right to sue
 - Lower premiums
 - Opt-out default
 - Transaction costs = 0
- New Jersey
 - Auto insurance
 - Option of limited right to sue
 - Lower premiums
 - Opt-in default
 - Transaction costs = signature
- 75% 'selected' full right to sue
- 20% selected full right to sue



What does behavioural economics teach us?

1. Knowledge and understanding of consumer behaviour will help in what to look at in the market investigation stage
2. Assume nothing! (or at least not much)
 - understand the problem – proactive investigations in a specific market
 - test any solution (ex ante + ex post) – do not assume rational actor behaviour – do not assume biases
3. Work *with* biases rather than against

● ● ● | Toolkit - content

- Ch 1 – how markets and consumers have changed
- Ch 2 – descriptions of neo-classical, information and behavioural economics
- Ch 3 – market investigation, analysis and measures of detriment
- Ch 4 – description of tools available
- Ch 5 – policy decision-making including benefits-cost analysis

