NUDGING OR EDUCATING?

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Two Key Ideas

1. The “Nudge” or “Educate” discussion should not be an or decision.
   – How can be best harness both approaches?

2. Nudges are just one way of harnessing human psychology
   – Product or program design
Nudge

......any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives
The "medium" effect or the compromise effect
The Power of Defaults
Johnson and Goldstein (2003)
Behaviour Change

- Problem Recognition and Desire to Act
- Initiation of Action
- Maintenance and Nurturing

*Education plays a big role in Step 1, and sometimes Step 3. Nudging often helps people “get started” or “maintain” e.g. QuickEnrollment or AutoEnrollment*
Rural India

- Cash economy
- Little access to banking
- No formal credit
- Unpredictable earnings
- Agriculture, construction labour
The Key Problem

• Education helped to convince people about the need to save

• Most people comprehended the content of the seminar, yet behavior was unchanged.

• The question: How could we convert intent into action?
Some Simple Earmarking Devices

Savings rates increased significantly when these simple devices were employed.
Opening Bank Accounts

- Unbanked low-income consumers in USA attended a financial literacy workshop

- Reasons for not opening account
  - Nuisance / too much work
  - Feel uncomfortable

![Percent take-up (bank first accounts)](chart)

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<tr>
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<th>Workshop</th>
<th>Workshop + form</th>
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<tbody>
<tr>
<td>Percent take-up</td>
<td>11%</td>
<td>63%</td>
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Mullainathan and Shafir (2009)
Other Behavioral Economics Interventions

• Products
  – Reminders
  – Smart phone apps
  – Self-control and mental accounting devices

• Programs
  – Save More Tomorrow™
Key Challenges

• Behavioral Economics is still a relatively new science
  – “Rules of thumb” are still very general
  – More of a focus on effect directions, not on effect sizes

• Scale
  – Many examples of local success
  – What needs to be done to scale them up?