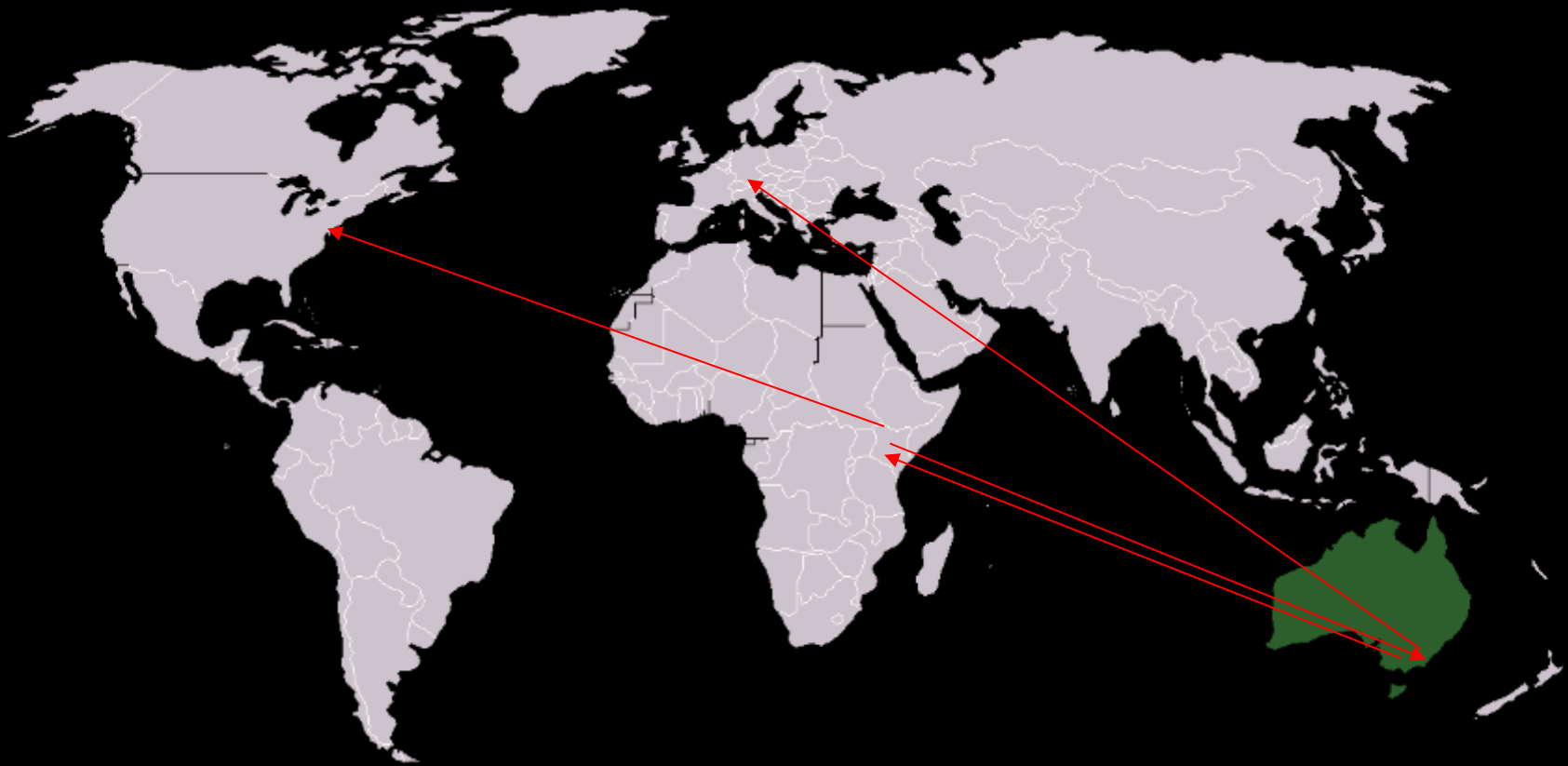


Behavioral Economics & What you Need to Know



How's the water?



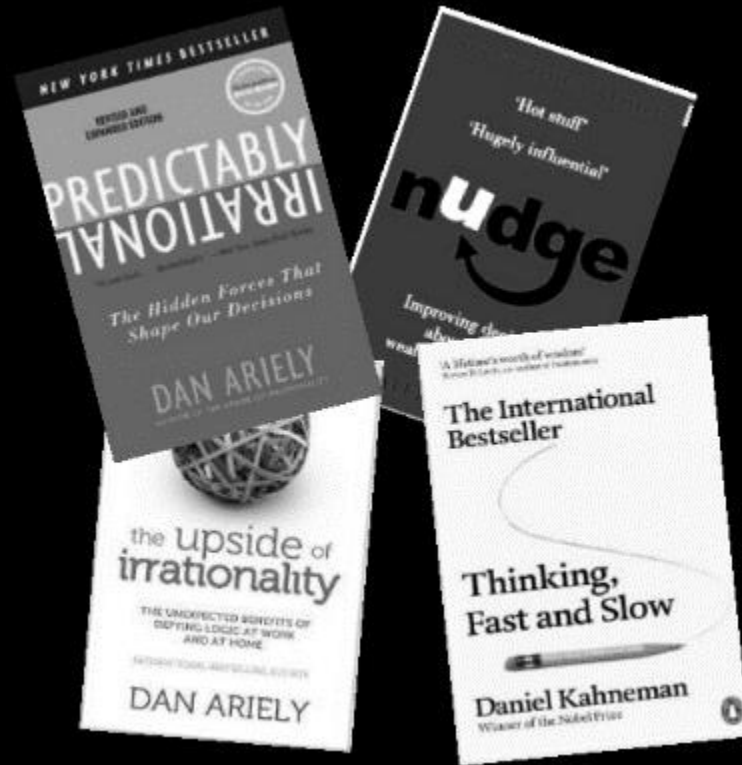
What's "water"?



The Science of **Decision Making**

What do we know so far?

The Study of irrationality?



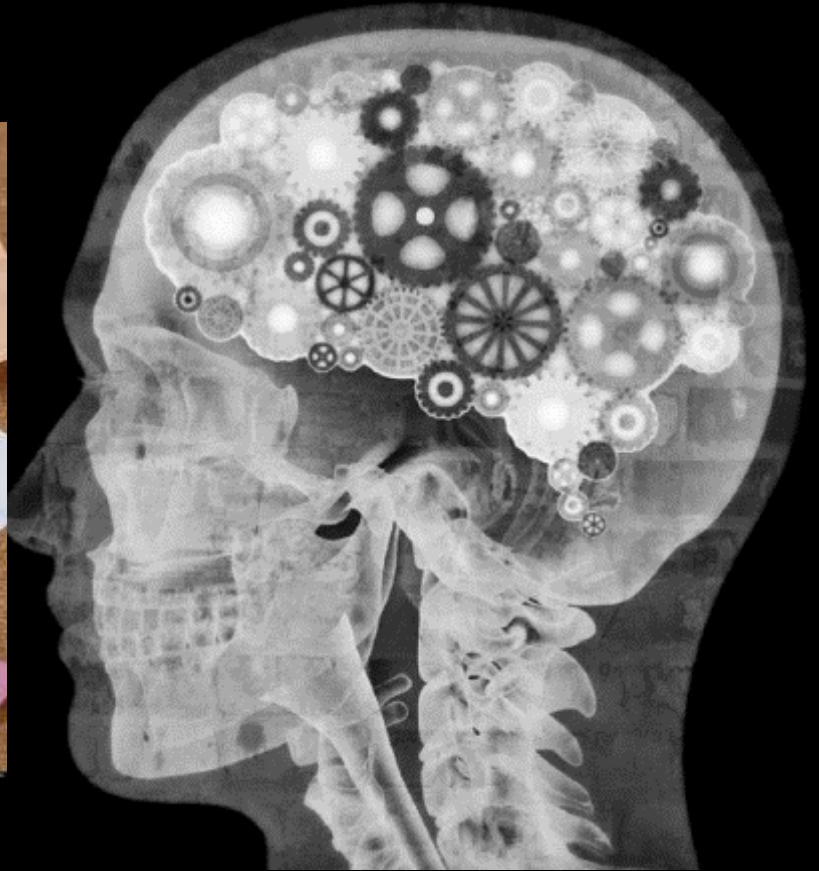
The Study of Emotions?



Just a bunch of magic tricks?



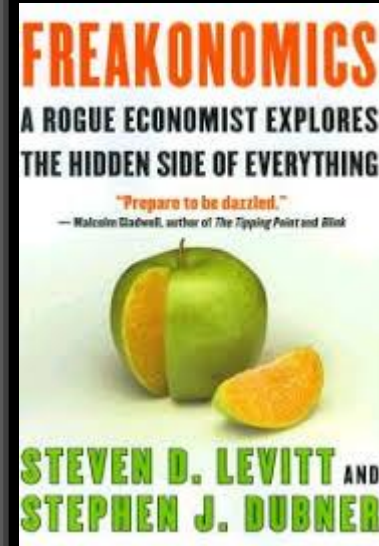
Behavioral economics is understanding how we make decisions



Borrowing from an academic definition; Behavioral Economics (*BE for short*) is systematically irrational behavior

But Behavioral Economics is
not:

- A set of instructions
- Freakonomics
- Motivating behavior
- A root cause of market disaster



Why is Behavioral economics important?

We don't understand ourselves.....
.....and we can't tell the truth



We don't know everything, especially about ourselves- what we see, is all there is

We tend to answer what is easy or what we want to reveal- more so if the experience was unsavory

It is difficult to think in a hypothetical situation- the present here & now is easier to manage

Behavioral Economics can be used to...

1. Eliminate bias from research methods

2. Predict the biases in the purchase process

Many of the popular science books on behavioural economics talk about...

System 1 and System 2

System 1

is fast, intuitive, and what we use to make sense of the world quickly. It is built over time by systematic irrational behavior that has led us to a pretty decent outcomes so we inadvertently position it as the trusted source when making decisions

System 2

is slow, laborious & requires us to spend some considerable time before we make a decision. It makes us think, & let's face it, we hate to think...so we rarely refer to system 2, unless we need to calculate the best option like a mortgage plan

& recently, BE scientists just introduced us to System 3....

Quick task:

Close your eyes for a brief moment...

System 3 is about...

The ability to speculate about the future...

...how the mind thinks about hypotheticals...

...can consider what life feels like for someone else...

...System 3 is your imagination...

In a nutshell...

System 1



System 2



System 3

When most think of BE, they are often described to us as biases & heuristics...but they are so many (100+ on Wikipedia alone)

How can we possibly apply this?





We can't process all the information the world throws at us

We can only make decisions based on the here & now

We can't work out all the consequences of every decision

Our minds can't do everything we want to...as powerful a machine it may be

These limitations are like “chains” that stop our from optimizing decisions so we are not able to think & choose freely



Biases & heuristics are 'side effects' of the strategies our minds have developed to get around the constraints mentioned earlier



Design flaws....



Or design features?



We did not evolve in order to be fully rational

Fast thinking is actually a clever evolutionary solution to make the brain more energy efficient



The brain uses more energy than any other organ – up to 20% of the total

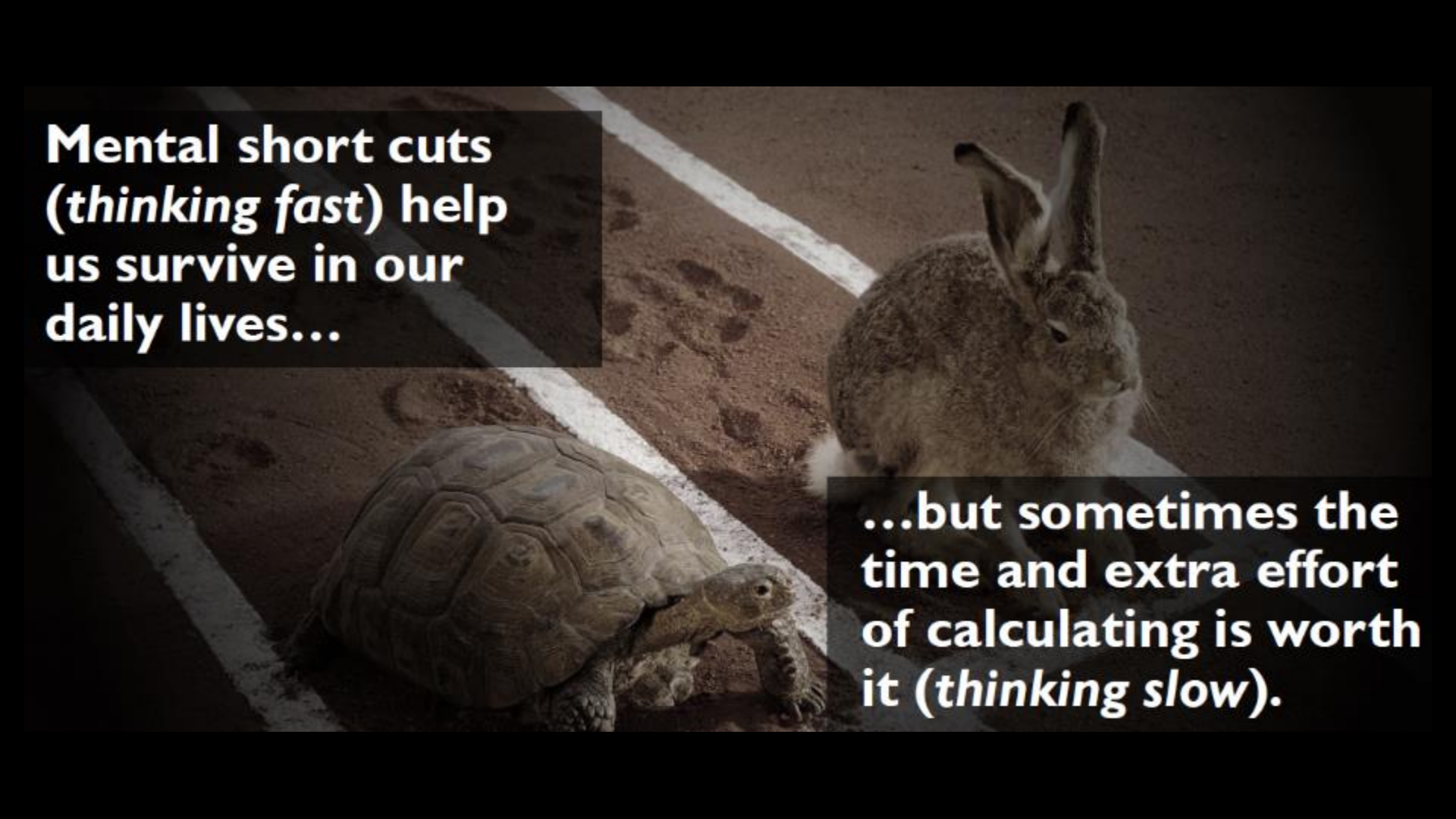
The more processes we can automate the more capacity we have for high level things

Our thinking is biased towards our own personal experience and if we hadn't seen it, we didn't know about it

Our choices are based on personal experience and it is hard for us think statistically

**The shortcuts usually lead to a sensible conclusion but once
in a while our brain misses a detail and leads us on
the wrong path**





**Mental short cuts
(*thinking fast*) help
us survive in our
daily lives...**

**...but sometimes the
time and extra effort
of calculating is worth
it (*thinking slow*).**



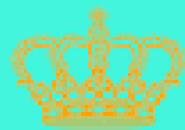
1 People think automatically, using gut feeling and social cues

2 Our minds have limitations which force them to find strategies (*heuristics and biases*) to work around them.

3 Irrationality is not the same as stupidity – we need mental shortcuts to survive by making “good enough” decisions



Reality: Being
human is harder
than it seems...



**WHAT TIME
IS IT?
IT'S
QUIZ
TIME**

1. True or False?

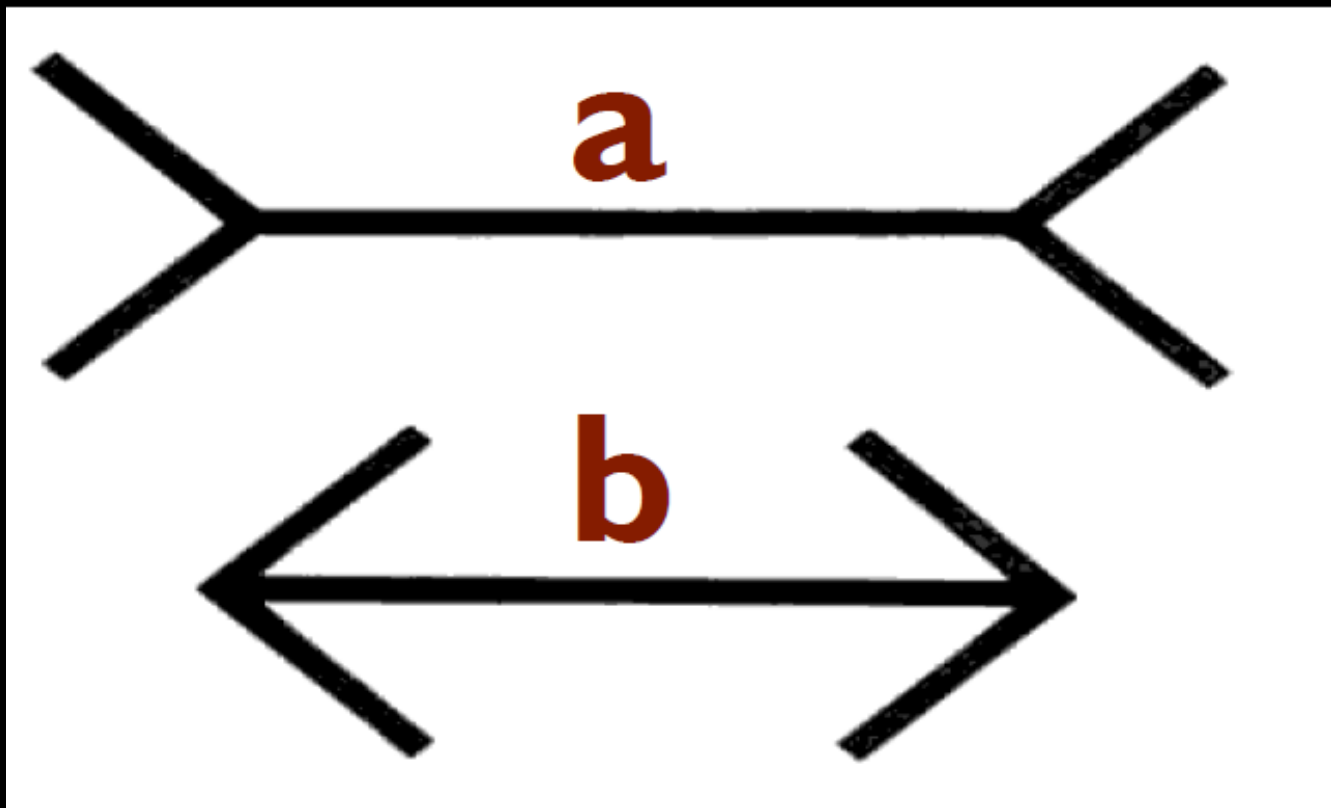
A language can...

- a. Have no words for left and right
- b. Have no word for the colour “blue”
- c. Have an impact on your wealth

BONUS:

- d. Have no equivalent for the word “please”

2. Which one is longer?



3. Would you rather have...?



a. 2.5 Million now

b. 2.8 Million in a month

4. A bat and a ball cost 110 KES in total. The bat costs 100 KES more than the ball. How much is the ball?

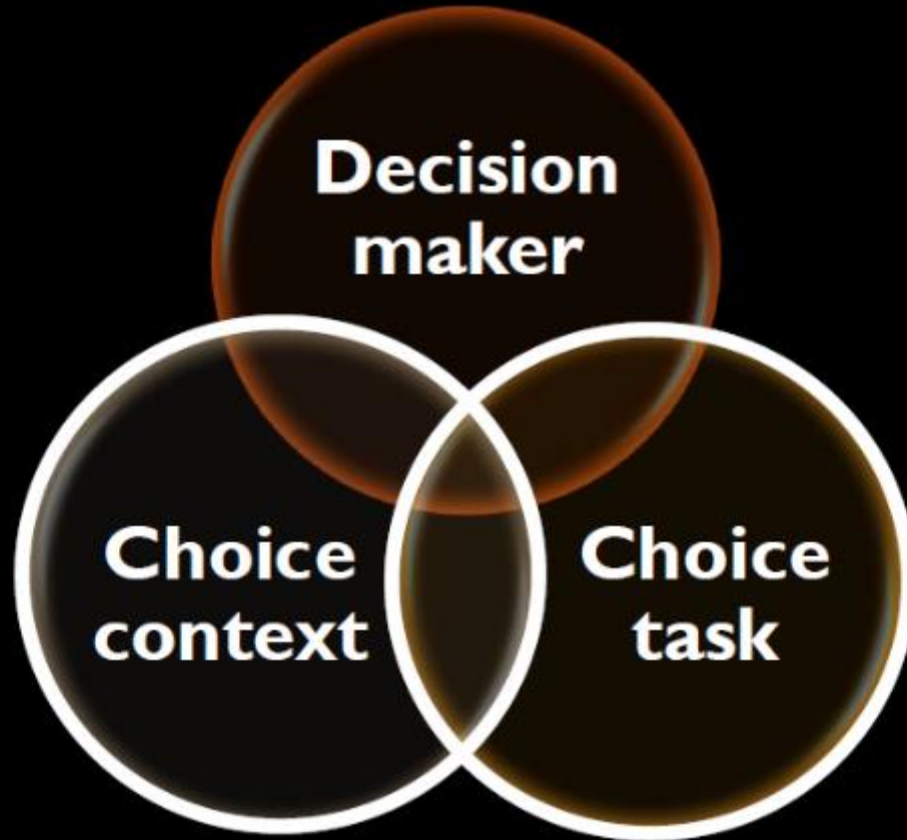
5. Linda is 31 years old, single, outspoken, and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination & social justice, and also participated in anti-nuclear demonstrations.

Which option is more probable?

1. Linda is a bank teller
2. Linda is a bank teller & is active in the feminist movement

Taking a Global Perspective
How far does it go?

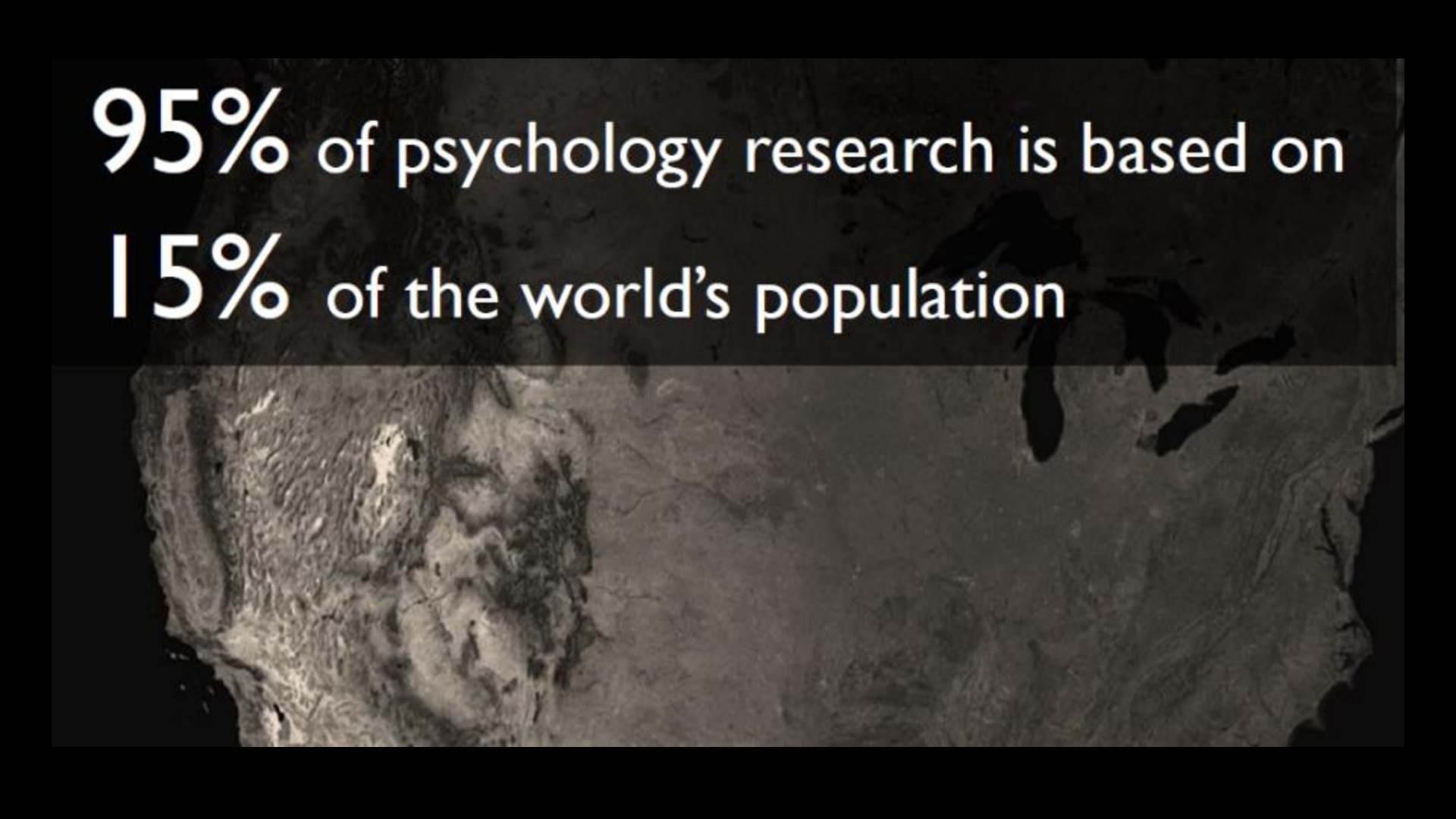
Three facets of every decision



Cognitive load; time pressure, biases etc.

Framing; 90% fat free or 10% fat

95% of psychology research is based on
15% of the world's population



Most of psychology is...

Western
Educated
Industrialised
Rich
Democratic

“The biggest challenge for our field in the next 10 years would be to understand the generality of the findings we have.”

“We have been ignoring culture too much.”

*Dan Ariely, Professor of behavioural Economics
Duke University*



“Every behavioural economics
effect we know is WEIRD.”

*Hazel Markus, Professor of behavioural Sciences
Stanford University*



Let's use exercise to illustrate how we have been ignoring cultural nuances...stand up



1. Go South

2. Turn to the Western side of the of
the screen

3. Lift your northern hand

Can language impact how we see the world?



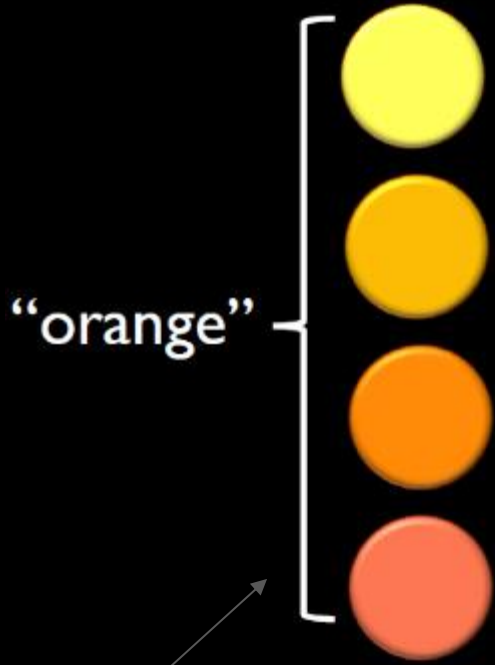
Kuuk Thayorre
Guugu Yimithirr

Egocentric vs. allocentric orientation

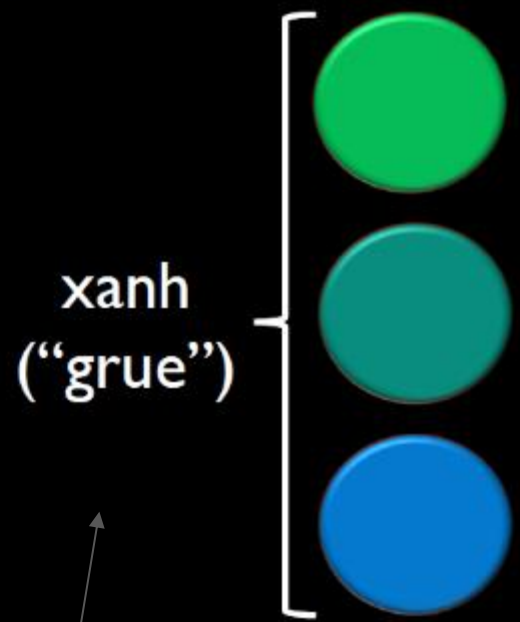
By the way...incase you are wondering....



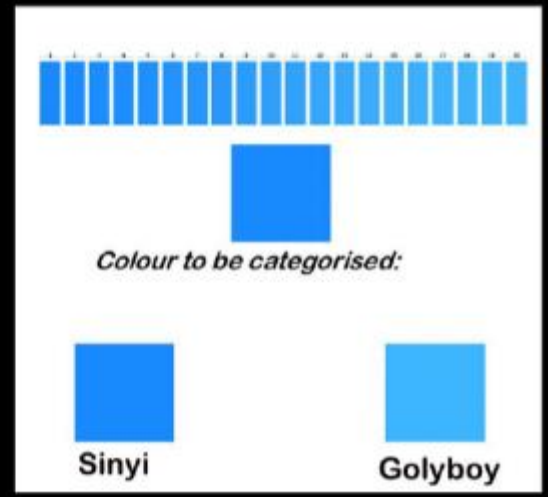
Can language determine what colours we see?



Zuni Language, Mexico



Vietnamese



Can language influence how we perceive time?

**Present and future
highly separate**

E.g. English, Spanish, French



It will rain tomorrow

**Present and future
less separate**

E.g. German, Dutch, Finnish







It rains tomorrow

It rains today

***Some of us have to remember the difference between
the present and the future and others don't.***

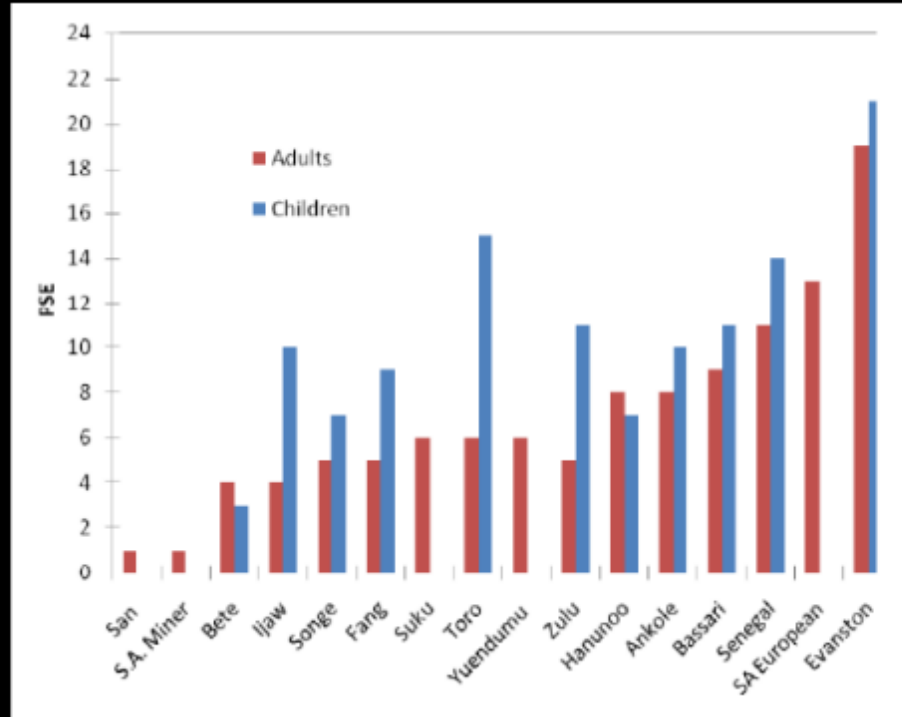
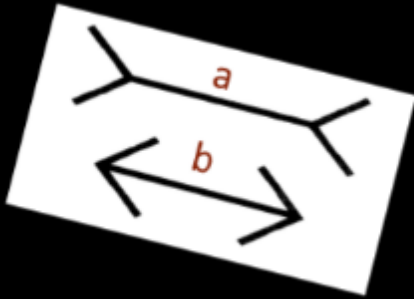
Results for the Quiz..... True or False?

A language can...

-  a. Have no words for left and right
-  b. Have no word for the colour “blue”
-  c. Have an impact on your wealth
-  d. Have no equivalent for the word “please”

Which one is longer?

Depends
where
you live!



Strength of
the “illusion”

If the basic cognitive processes can be affected by the environment we live in...then why do we think the same can't affect our decision making process?

4. A bat and a ball cost 110 KES in total. The bat costs 100 KES more than the ball. How much is the ball?

5 KES

5. Linda is 31 years old, single, outspoken, and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination & social justice, and also participated in anti-nuclear demonstrations.

Which option is more probable?

1. Linda is a bank teller

2. Linda is a bank teller & is active in the feminist movement

Culture: your filter for the world



A way to interpret your environment in a particular way that is similar to a lot of people in the cultural context you grew up in.



1 Most of what we know about “human” decision making is based on people from just a handful of countries – mainly Western ones

2 Cultural context can have a powerful influence on our thinking about everything from colour, time, space and... money.

3 Lots of different things in the cultural context also influence our decision making – sometimes in unexpected ways

Increasing interest in BE puts pressure on practitioners to
apply the science

BUT...

There is little, if not none, scientific research available in
cultural context outside the US/Europe...

WHY?

A universalist assumption

Cognitive *process*



Cognitive *content*

**Values, attitudes,
social norms,
manners,
etiquette etc.**

3. Would you rather have...?

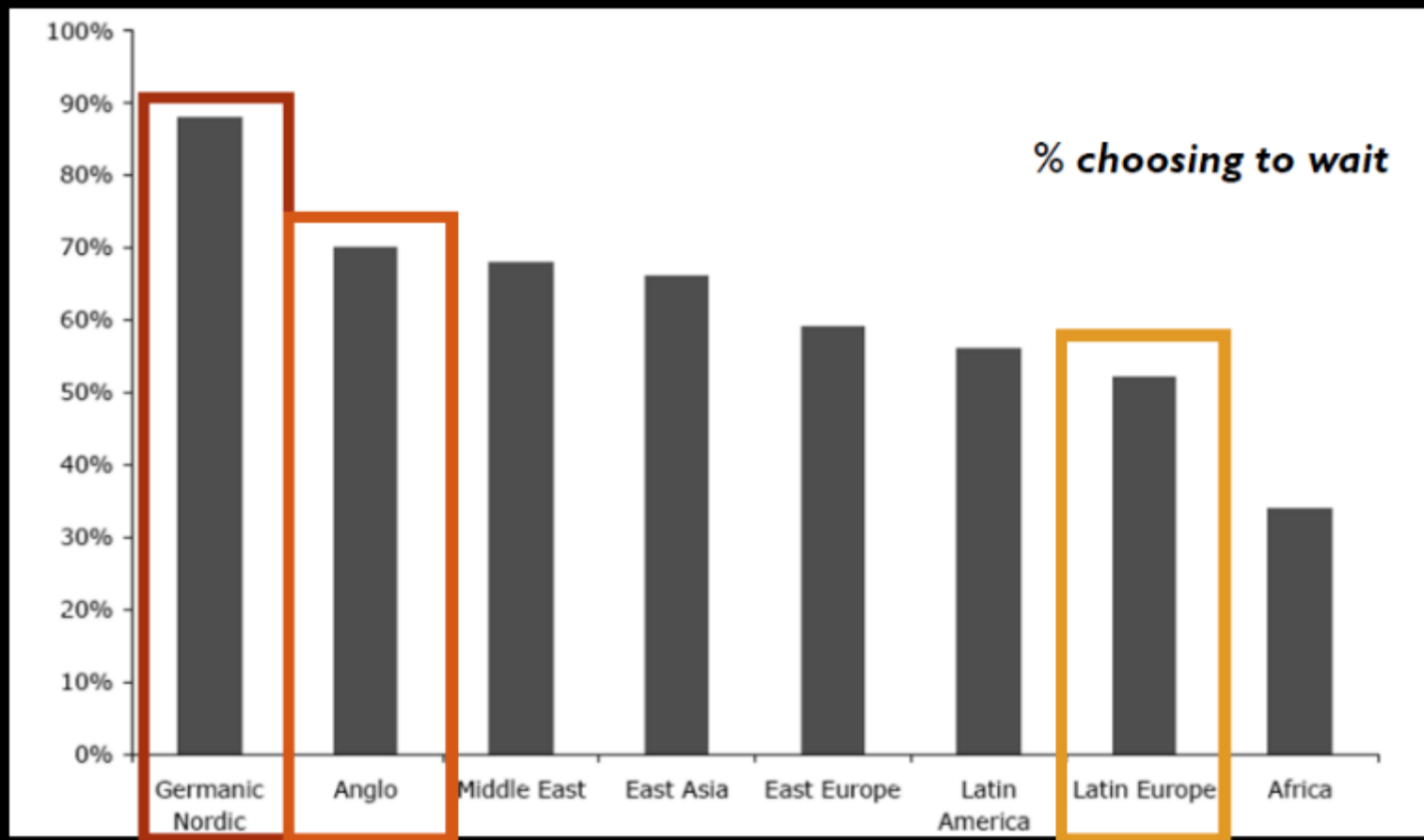


a. 2.5 Million now

b. 2.8 Million in a month

Depends where you live!

We're all impatient, but some more than others.



Different things get people to pay their taxes...



Appealing to social norms and moral costs

"Nine out of ten people in the UK pay their tax on time. You are currently in the very small minority of people who have not paid us yet"



The state is watching, appealing to national pride

"Previously we have considered your failure to declare an oversight. However, if you don't declare now we will consider it an active choice and you may therefore be audited and could face the procedure established by law"

"You are a Guatemalan citizen and Guatemala needs you. Be a good citizen and submit the 2013 annual return of income tax ... Are you going to support your country?"



Threatening – moral appeals backfired

"...filing a false report will result in harsh sanctions. — Tax noncompliance is a grave matter." vs. "We all suffer from noncompliance"



1 There is a lot of interest for applications of BE but little research from non-US contexts

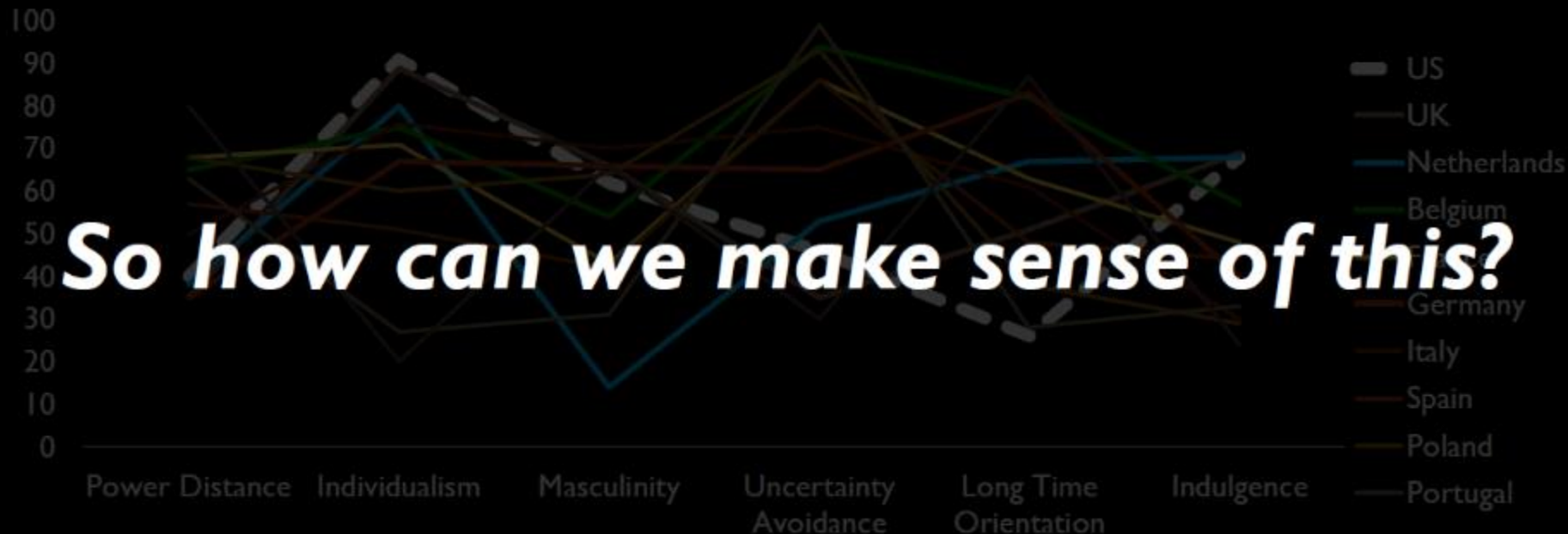
2 Some findings in specific areas but difficult to generalise

3 Lack of guiding framework makes it challenging for practitioners to use BE theories in different cultural contexts

While we wait for decision science to catch up....

Equipping us with **the right**
tools

European countries are not all the same





Individualistic countries

Focus on the individual more than anything else
Personal needs & goals priority
Desire to be unique and different

Independent self

While other people's views matter, personal preferences guide choices above all else



Collectivistic countries

Connected to others is a priority

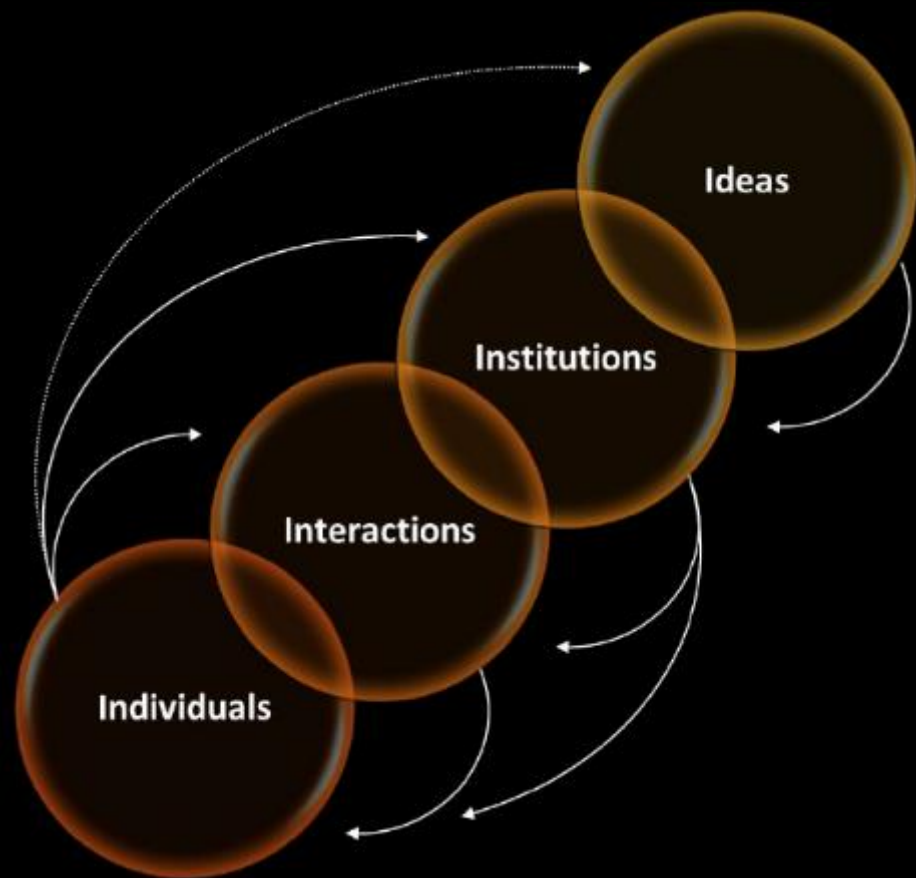
Maintaining relationships and fulfilling social roles important

Norms are integral to preferences

Interdependent self

Social norms and other people's expectations are often a stronger influence on behavior than personal preferences

**Society shapes
psychological processes
by telling us the right
way to behave**





Our self concept...

Directs attention to relevant information
Organizes and categorizes information
Prioritizes our preferences and motivations

... helping us make sense of the world.

System 1 is always the default to our self concept, driven & shaped by our environment

...and that is not all:

Our current knowledge about marketing phenomena (& therefore our research methods) has been built on a Western idea of an independent self; satisfaction, persuasion, self-gratification, loyalty...

We have based our techniques on the assumption that understanding personal preferences is the key to achieving & predicting desired marketing outcomes

What if that isn't the case?

What if how we are decoding the BOP consumer has been missing a crucial lens?

Are we writing the story of the Kenyan BOP or is it being written for us by WEIRD psychology?

First step is awareness

How's the water?

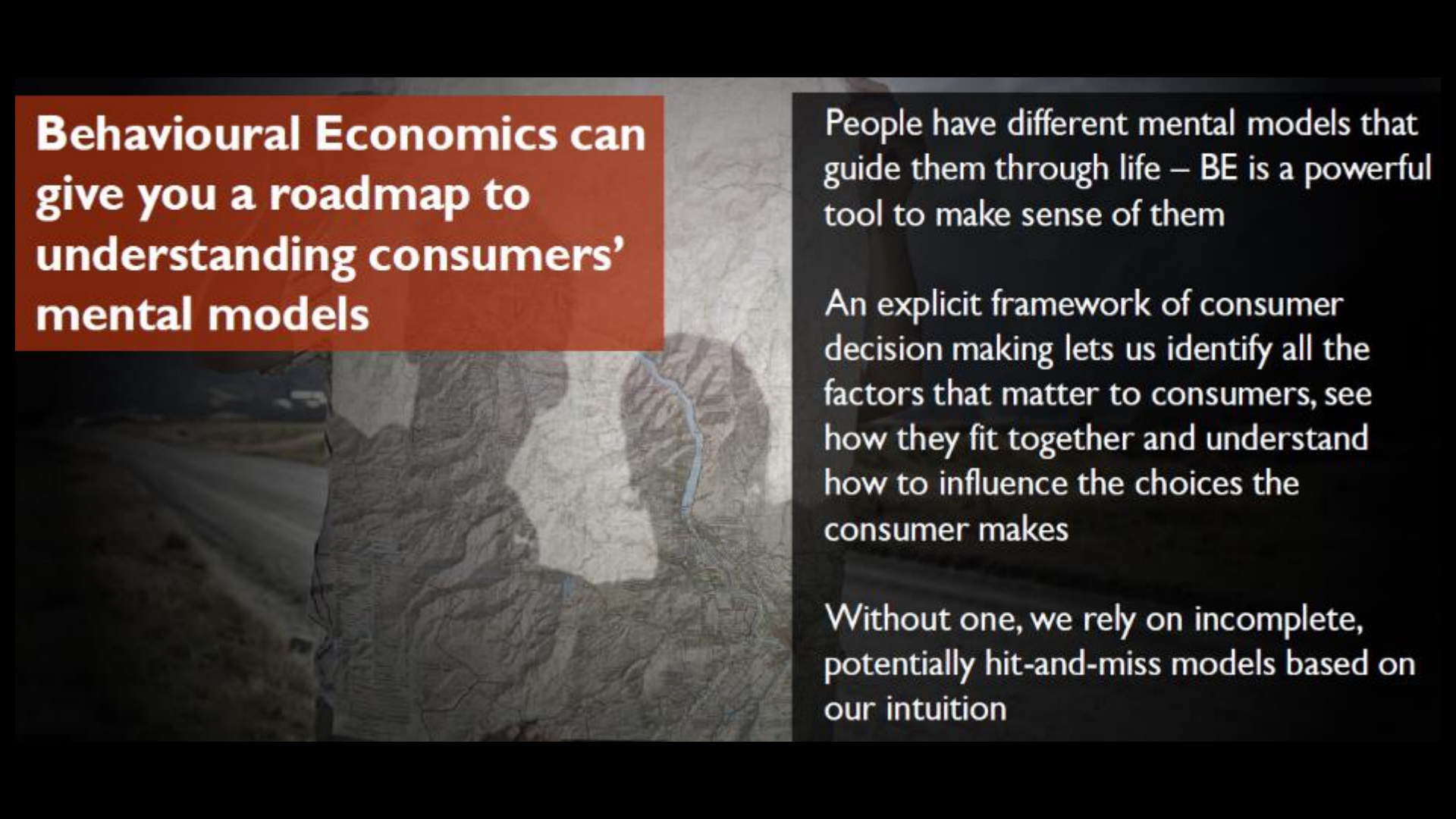


What's "water"?



**It's easy to forget that what surrounds
you is only normal because
it's what you know**

The principles of decision making are universal, but cultural context dials them up or down- have we also inadvertently ignored culture & Behavioral Economics all together?



Behavioural Economics can give you a roadmap to understanding consumers' mental models

People have different mental models that guide them through life – BE is a powerful tool to make sense of them

An explicit framework of consumer decision making lets us identify all the factors that matter to consumers, see how they fit together and understand how to influence the choices the consumer makes

Without one, we rely on incomplete, potentially hit-and-miss models based on our intuition

Go forth & be **irrational**...

A photograph of a crowd of people at a concert or event. Their hands are raised in the air, silhouetted against a background of red and white stage lights. The text "Thank You" is overlaid in the center of the image.

Thank You

Content courtesy of The Irrational Agency & David Kahneman's book, Thinking Fast & Slow