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# Behavioural Economics and Economic Policy



## AQA A Level Economics Revision Notes

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Consumer behaviour can influence the policies that governments employ. These policies might be different to traditional policies, and the two types of policy could work with each other. Policies developed from the theories of behavioural economics could be more effective for dealing with economic issues.

## Choice architecture and framing

**Choice architecture** refers to the way choices are presented to consumers. The different designs affect the choice consumers make. Well-designed choice architectures can help consumers avoid making irrational decisions and poor choices. This could improve consumer welfare. For example, a consumer might be offered fewer choices, to avoid the time cost and consideration it takes to evaluate an extra choice. An example of choice architecture is organ donation. Countries with opt-out organ donation have higher rates of organ donation than countries which have opt-in systems. This is because of the perceived effort with signing in or out of the system.

**Framing** is the way by which consumers are influenced by the context of how a choice is presented. The context is made includes word choices and it affects the choice consumers make. For example, if consumers are told the monthly payment for a good or service, rather than the aggregate yearly payment, they are more likely to purchase the good or service, since it seems more affordable.

## Nudges

Nudges aim to change the behaviour of consumers without taking away their freedom of choice. It comes under the category of choice architecture. For example, rather than banning something like junk food, replacing it with healthier food is a nudge. This still allows consumers to make a free choice, but it alters their behaviour to choose the healthier option.

It is sometimes argued that nudges are manipulative and consumers do not get a free choice with them. However, due to imperfect information that exists between consumers and firms, nudges can help prevent consumers making irrational or poor choices, so their welfare is maximised.

## Default choices, restricted choice and mandated choice

A default choice is when a consumer is automatically enrolled into a system, such as a pension scheme. Consumers are more likely to participate when they are automatically enrolled. It is the choice the consumer takes if they take no action.

A restricted choice is akin to the example of junk food and healthier food. The choice of the consumer is restricted, but it is still there.

A mandated choice is when consumers are required to state whether they wish to participate in an action. For example, in the UK everyone who applies or renews their driving licence is asked if they wish to sign up for organ donation.



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