



Nudge Theory

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Table of Contents

Nudge theory	4
History	4
Concept	4
Processing of Information in Humans & its impact	5
Types of Nudges	5
Practical applications	6
• making public policy	6
• influencing citizen behavior	6
• healthcare	6
• personal finance	6
• investment planning	6
Use by the Government	7
Daily life application	7
Use in Healthcare	7
Criticisms of Nudge Theory	8
Small Nudges are not enough	8
Problem with Experiments	8
Scale of Impact of Nudges	8
Methodological Limitation of Nudges	9
Ethics of Nudges	9

Nudge theory

History

- Nudge theory was named and popularised by the book, '*Nudge: Improving Decisions about Health, Wealth, and Happiness*', written by American academics **Richard H Thaler and Cass R Sunstein**.
- They built much of their theory on the heuristics work of Israeli-American psychologists Daniel Kahneman and Amos Tversky, which first emerged in the 1970s in psychological journals.
- In the year 2017, Richard Thaler bagged **Economics Nobel** for his work on behavioral economics which shone the spotlight on the 'Nudge Theory.'
- It was proposed originally in US 'behavioral economics', but it can be adapted and applied much more widely for **enabling and encouraging change in people, groups, or yourself**.

Concept

- Nudge theory emerged from behavioral economics where we are trying to analyze the behavior of people like what do consumers consume in the economy & this study will help producers to supply goods & services accordingly. Nudge is a part of it.
- Nudge is an economic incentive that gives relevant choices to people so that they can change their behavior.
- People often need encouragement or intervention — a **nudge — to get going and do what's best for the country or society at large**. People are influenced through nudges which gives them relevant choices without forcing them.
- It proposes that the **designing of choices should be based on how people actually think and decide rather than what leaders and authorities believe about how people think and decide**.
 - Indirect encouragement and enablement. It avoids direct instruction or enforcement.
- To drive favorable behavior and remove unfavorable ones, without penal action or outright bans by understanding people behavior.
- It helps to make people work by knowing their behavior & giving them relevant choices without any compulsion
- It helps to improve decision making in our country thereby increasing the welfare of every citizen

In simple words, it steers people towards desirable behavior even while preserving their liberty to choose among relevant options.

Processing of Information in Humans & its impact

- Nobel Laureate Daniel Kahneman describes two distinct systems for processing information as to why people sometimes act against their own self-interest:
- **System 1** is fast, automatic, and highly susceptible to environmental influences;
- **System 2** processing is slow, reflective, and takes into account explicit goals and intentions.
- When **situations are overly complex or overwhelming** for an individual's cognitive capacity, or when an individual is faced with time-constraints or other pressures, **System 1 processing takes over** decision-making. System 1 processing relies on various judgmental heuristics to make decisions, resulting in faster decisions. Unfortunately, this can also lead to sub-optimal decisions. In fact, Thaler and Sunstein trace maladaptive behavior to situations in which System 1 processing over-rides an individual's explicit values and goals. It is well documented that **habitual behavior is resistant to change without a disruption to the environmental cues that trigger that behaviour.**
- Nudging techniques aim to use judgmental heuristics to the advantage of the party creating the set of choices. In other words, **a nudge alters the environment so that when heuristic, or System 1, decision-making is used, the resulting choice will be the most positive or desired outcome.** An example of such a nudge is switching the placement of junk food in a store, so that fruit and other healthy options are located next to the cash register, while junk food is relocated to another part of the store.

Types of Nudges

Nudges are small changes in environment that are easy and inexpensive to implement. Several different techniques exist for nudging, including **defaults, social proof heuristics, and increasing the salience of the desired option.**

1. A default option is the **option an individual automatically receives if he or she does nothing.** People are more likely to choose a particular option if it is the default option. For example, Pichert & Katsikopoulos found that a greater number of consumers chose the renewable energy option for electricity when it was offered as the default option.
2. A social proof heuristic refers to the **tendency for individuals to look at the behavior of other people to help guide their own behavior.** Studies have found some success in using social proof heuristics to nudge individuals to make healthier food choices.
3. **When an individual's attention is drawn towards a particular option, that option will become more salient to the individual,** and he or she will be more likely to choose that option. As an example, in snack shops at train stations in the Netherlands, consumers purchased more fruit and healthy snack options when they were relocated next to the cash register. Since then, other similar studies have been made regarding the placement of healthier food options close to the checkout counter and the effect on the consuming behavior of the customers and this is now considered an effective and well-accepted nudge.

Practical applications

It can be used in the following arenas:

- making public policy
- influencing citizen behavior
- healthcare
- personal finance
- investment planning

Use by the Government

The government uses nudge to change the behavior of market participants & citizens, for example:

1. In order to encourage people to invest in financial instruments like PPF , sukanya samridhi scheme, national savings certificate etc., instead of gold & property, the government gives them a nudge in form of tax deduction up to 150000 under section 80C
2. Spreading awareness about ill-effects of burning firecrackers on air quality & public health is a nudge rather than imposing ban on the sale of firecrackers.
3. Swacch Bharat mission where people are nudged about ill-effects of unclean environment by launching it on the birth anniversary of Gandhi ji

Daily life application

Ram was gaining weight. His mother forced him to go to the gym but he didn't want that.

So, to incentivize him, his mother advised him activities like playing interesting sports, eating smaller portions of food, using stairs instead of lift etc.

Ram chose smaller portions, started using stairs instead of lift and started playing tennis.

By doing things of his own choice, he lost 6 kgs in 3 months, ultimately achieving his fitness goal without even going to the gym.

Use in Healthcare

The nudge theory has been used in different ways to make health care professionals make more deliberate decisions in numerous areas. For example, nudging has been used by keeping more hand wash items in every hospital room in plain sight, as a way to improve hand hygiene among health care workers to decrease the number of healthcare associated infections.

Criticisms of Nudge Theory

Small Nudges are not enough

There is school of thought that many of the well-established and tried and tested policies which behavioural economics has challenged (by suggesting that small nudges are better than large scale interventionist measures) provide more effective types of behaviour change.

For example, some argue that higher fuel taxes yield a better result than small nudges towards better environmental decisions. Other critics argue that much of the impact of nudge-type policy is short term, and does not lead to long lasting changes in behaviour.

Problem with Experiments

A further criticism is that interventions suggested by the results from controlled lab experiments may not necessarily work as effectively in the real world. Small nudges might work well under controlled conditions, but will be subject to much more 'interference' when tried in 'live' situations. It is possible that the effect of subtle nudging is so small that governments have to spend much more money implementing such policies in comparison with traditional policies.

Scale of Impact of Nudges

According to the conceptual strand of criticism, nudges are an inappropriate method of addressing complex policy problems adequately. In essence, there are doubts over whether nudges have the potential to remedy the more distal causes of policy problems, i.e. their economic, social and spatial dimensions first and foremost.

If we consider, for example, a major public health issue such as obesity, there are serious objections to the proposed usefulness of behavioural interventions in tackling the causes of the causes of obesity, i.e. the complex interplay of a powerful food industry, poverty, inequality and social deprivation. While most critics do not doubt the effectiveness of behavioural policies overall, they do question the scope and scale of nudging as a remedy.

Methodological Limitation of Nudges

The methodological strand of criticism regards nudges as an unsuitable route by which to address the deeper causes of policy problems. As mentioned, behavioural techniques are geared to promoting individual behaviour change based on positivist evidence, based predominantly on RCTs that are conducted in laboratory settings. Due to this methodological monism, current behavioural interventions seem insufficiently capable of reflecting the diversity of people's life-worlds. For example, RCT-driven experiments with nudging citizens to become organ donors do not 'adequately engage with the complex and often fraught context in which family decision-making about organ donation takes place immediately following the loss of a loved one'. In addition, methodological bias limits the areas in which behavioural insights can be applied from the outset.

Ethics of Nudges

There is fierce debate about the ethics and the political morality of nudges. In essence, nudges are perceived as ethically problematic because modified choice architectures systematically override people's own interests. Thus, critics rebut nudgers' claims that they are merely influencing people's behaviour in directions 'as judged by their own preferences'. There are serious doubts over whether citizens would actually agree to well-intentioned nudges that claim simply to be promoting reasonable and rational behaviours. As mentioned previously, nudges reflect 'the behaviour [that policymakers'] want to see' rather than engaging with citizens' actual



preferences in any meaningful way. For example, **in contrast to what behavioural policymakers assume, people may have good personal reasons to wish to continue smoking, eating unhealthily or deciding against a medical treatment.**

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