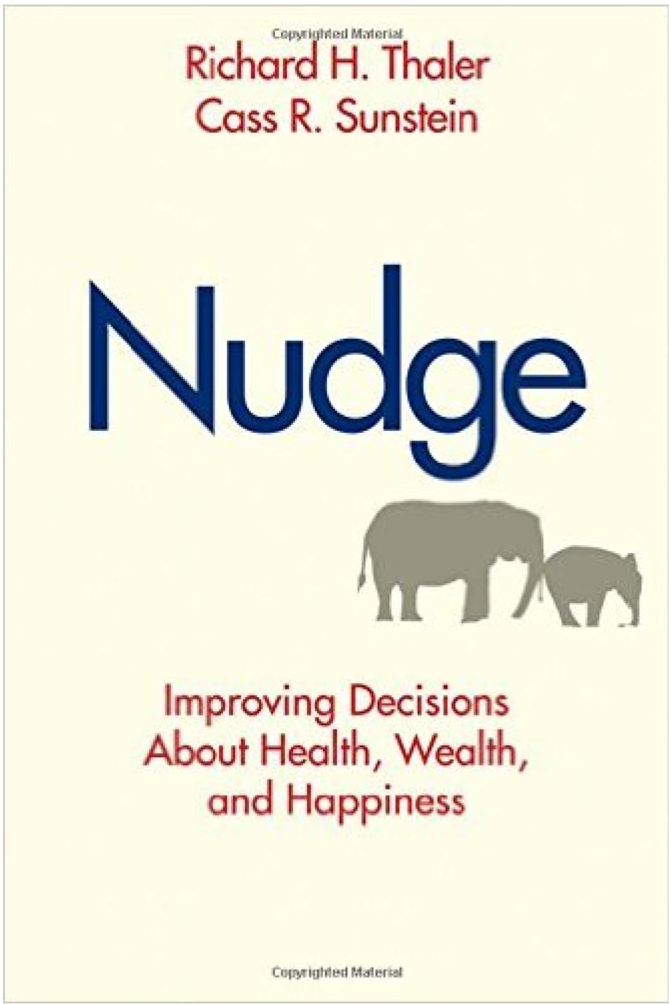
Nudge: Improving Decisions About Health, Wealth, And Happiness



Synopsis

Every day, we make decisions on topics ranging from personal investments to schools for our children to the meals we eat to the causes we champion. Unfortunately, we often choose poorly. The reason, the authors explain in this important exploration of choice architecture, is that, being human, we all are susceptible to various biases that can lead us to blunder. Our mistakes make us poorer and less healthy; we often make bad decisions involving education, personal finance, health care, mortgages and credit cards, the family, and even the planet itself.Â Thaler and Sunstein invite us to enter an alternative world, one that takes our humanness as a given. They show that by knowing how people think, we can design choice environments that make it easier for people to choose what is best for themselves, their families, and their society. Using colorful examples from the most important aspects of life, Thaler and Sunstein demonstrate how thoughtful “choice architectureâ • can be established to nudge us in beneficial directions without restricting freedom of choice. Nudge offers a unique new take—from neither the left nor the right—on many hot-button issues, for individuals and governments alike. This is one of the most engaging and provocative books to come along in many years.Â

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Customer Reviews

The good part of this book is that it contains a lot of practical and nonpartisan policy advice, such as requiring corporations to sign people up for the 401(k) by default and then letting them opt out. This is an example of what they mean by "nudge". You don't need to coerce people; since something has to be the default option you can at least give them intelligent defaults.The bad side of the book is its poor understanding of human nature. Libertarian economists such as Gary Becker have been aggressively promoting free markets based on a mathematical vision of rational decision making. Needless to say, this vision could only apply to ultra-logical people like Mr. Spock - the notorious Homo economicus. The breakthroughs of behavioral economics teach us that real people do not act like Mr. Spock. This book does an excellent job explaining the major findings of behavioral economics. But rather than try to understand the richness of real human behavior, most behavioral economists tilt towards the opposite extreme. They pronounce humans as irrational and filled with hidden biases. Homo economicus has been replaced by Homo irrationalus.That's unfortunate because the real story of human nature is far more interesting. Consider the case of loss aversion (pp 33-34). In a classic experiment which has been replicated hundreds of times, students were randomly given free coffee mugs. The mug-less students were asked how much they would pay to get a mug and the students with mugs were asked how much they would want in order to sell their mugs. It turns out that students with mugs wanted an average of about twice as much as the mug-less students were willing to pay! This goes by the name of loss aversion, the endowment effect, and the status quo bias. It is labeled a bias because a self-respecting member of Homo economicus would think about how often he drinks coffee, how often he does the dishes, and how many mugs he currently has. Based on this analysis he would put a price on a new coffee mug. That price would not influence by whether or not he just got a mug for free. But in fact this behavior is rational. Richard Thaler and Cass Sunstein conclude that "loss aversion operates as a kind of cognitive nudge, pressing us not to make changes, even when changes are very much in our interests." (p.34)The method behind our seemingly irrational madness is found in a classic problem in game theory - the game of hawks and doves. Hawk and dove are different strategies people can use when they are in a conflict over a prize. The prize could be anything. For butterflies it could be a sunlit leaf because male butterflies have more mating success when they occupy such a position. For feral horses it could be a pool of water (Herb Gintis reviews the literature in _The Bounds of Reason_). Doves are sharers. When two doves see a prize they will share it. When two hawks see a prize they will fight over it. When a hawk meets a dove the dove will yield the prize to the hawk. A world of all doves is basically a communist utopia where everyone shares everything. It is also efficient because people maximize the use of available resources (prizes). The problem is that it is not what biologists and game theorists call an evolutionary stable strategy. It can easily be invaded by hawks. The first person to switch to the hawk strategy will get the entire prize without cost wherever he goes. Over time more and more and people will play hawk. That’s inefficient because the cost of fighting must be subtracted from the value of the prize.We have a problem. A world with doves is efficient but unstable. A world with hawks is inefficient but stable. The evolutionary biologist John Maynard Smith found the answer - the bourgeois strategy. That means "play hawk when you own the prize and dove when someone else does." A world of bourgeoisie is efficient because it eliminates fighting as effectively as the dove strategy. It is also an evolutionary stable strategy that cannot be invaded by hawks. That’s because hawks are basically parasites on doves - they need the free prizes to offset the cost of fighting. A necessary consequence of adopting the bourgeois strategy is that people will value prizes that they own more than prizes that other people own. That’s the real reason for loss aversion. It is not a "bias" but an efficient and stable strategy that provides the strategic foundation for the rule of law. The cost of enforcing the law goes up with the number of people who are trying to break it. If people did not have a sense of loss aversion then there would be more useful trades - but there would also be conflict and fighting over prizes.That is just one example and this is already a long review but these kinds of lessons underlie nearly all of the so-called "biases" that Thaler and Sunstein identify. If you want to learn about Homo economicus then pick up _The Economics of Life_ by Gary Becker. If you want to about Homo irrationalus then buy this book. But if you want to learn about Homo sapiens then you will need to look elsewhere. I recommend starting withÂ Gut Feelings: The Intelligence of the Unconscious_ by Gerd Gigerenzer. It is the book that _Blink_ by Malcolm Gladwell should have been. Books that talk discuss the hawk-dove game and other fascinating results out of evolutionary game theory are pretty scholarly.Â Games in Economic DevelopmentÂ only requires high school algebra and you can easily skip over the math. I also think that most people interested in this book would enjoyÂ Filthy Lucre: Economics for People Who Hate Capitalism. It is an accessible but sophisticated look at modern economics, including some behavioral economics.

Richard H. Thaler and Cass R. Sunstein are both professors at the University of Chicago and where the Chicago school was once famous for the Milton Friedman doctrine of free markets (look where they’ve got us today!) Thaler and now his Law professor friend Cass Sunstein have swung the pendulum the other way.Here in Nudge, they argue that totally free markets can lead to disasters precisely because human individuals are not actually very good decision-makers. As Behavioural Economists (Kahneman & TverskyÂ Judgment under Uncertainty: Heuristics and Biases- who credited Thaler as being a key inspiration - and Dan Ariely, whoseÂ Predictably Irrational: The Hidden Forces That Shape Our DecisionsÂ has become a best seller) argue, we are riddled with little psychological tics in our decision-making processes. We buy things, then suffer remorse. We get confused by choices and often make no choice at all.But where Ariely keeps his discourse in the world of the day to day, Thaler and Sunstein develop an argument that is political - and is bound to cause heated debate. What they argue is that, in the face of our decision-making weaknesses, Governments and Businesses can help "nudge" us in the right direction. The elephant in the room can be benign.They call their viewpoint `libertarian paternalism' and what they argue is that it would be a good thing for some gentle nudging of the citizenry in the right direction. As Thaler said recently in the New York Times: "In light of human limitations, Cass Sunstein and I argue for policies that we call libertarian paternalism. Although the phrase sounds like an oxymoron, we contend that it is often possible to design policies, in both the public and private sector, that make people better off -- as judged by themselves -- without coercion. We oppose bans; instead, we favor nudges."How does a Government do this without imposing laws and edicts. A primary argument is that defaults can be set that counter the tendency by humans to procrastinate or make no decision. One example is the Save More Tomorrow Plan which Thaler developed back in 1996 as an employer sponsored retirement plan for employees. Instead of presenting the details and asking employees to consciously sign-up to increase their savings each time they got a pay rise, the plan presented the details and asked employees to basically check the box if they wished in future to automatically increase their savings as their pay went up. To pre-commit. Such schemes have proved very successful, yet they offer the same free choice, though with a different default.As Thaler argues: "Since it is often impossible for private and public institutions to avoid picking some option as the default, why not pick one that is helpful?"Another form of nudge might be the act of disclosure. Thaler & Sunstein argue, for example that credit card companies should issue annual statements that tell us how much we've spent this year on late fees and interest. Again: we have the complete freedom to use cards as we want, but the additional information may help us reframe our own spending strategies. Or how about stickers on new cars that show how much gasoline each vehicle would burn over the next 5 years under typical usage. Hold that Hummer.These are examples of what the authors call helpful "choice architecture." Nice phrase. The architecture puts our options on more clear display.I must say, I like the thinking here, and it gives credence to agent-based simulation modelling I've carried out whereby small changes can lead to big effects.But this volume is about more than modelling and mere theory. One cannot help but think that the book has been timed to coincide with the meltdown of the present economy. The free market, the totally free market, the authors implicitly argue, needs quite a nudge itself. Rather than seeking highly regulated solutions, the better response might simply be a series of tweaks to the choice architecture that influences our spending, saving, health care and borrowing patterns.The authors present a clear argument and no doubt it will cause heated and lively debate. This book has landed like a rock, right into the centre of the current and somewhat stagnant economic pond. It will definitely cause ripples. Well worth reading.

Nudge: Improving Decisions About Health, Wealth, and Happiness Nudge: Improving Decisions About Health, Wealth, and Happiness [Expanded Edition] Index Funds: Index Funds Investing Guide To Wealth Building Through Index Funds Investing With Index Funds Investing Strategies For Building Wealth Including ... Guide To Wealth Building With Index Funds) Insurance and Behavioral Economics: Improving Decisions in the Most Misunderstood Industry Difficult Decisions in Colorectal Surgery (Difficult Decisions in Surgery: An Evidence-Based Approach) Impossible to Ignore: Creating Memorable Content to Influence Decisions: Creating Memorable Content to Influence Decisions Money, and the Law of Attraction: Learning to Attract Wealth, Health, and Happiness Total Feng Shui: Bring Health, Wealth, and Happiness into Your Life Health, Wealth & Happiness: Has the Prosperity Gospel Overshadowed the Gospel of Christ? Magick for Beginners!: Spells & Rituals to Attain Abundance, Wealth, Health, Happiness & Your Deepest Desires! The Art of Happiness in a Troubled World (Art of Happiness Book) The Pursuit of Happiness: Ten Ways to Increase Your Happiness (Paul G. Brodie Seminar Series Book 3) El Poder de la alegrÃƒÂa - The power of real Happiness: PequeÃƒÂ os detalles que nos cambian la vida - Happiness Factory (LAS CLAVES PARA TENER Ãƒâ XITO EN LA VIDA) (Spanish Edition) YOUR ULTIMATE WEALTH BIBLE : Simple Steps to a Life of Happiness and Financial Freedom: 3 Money Manifestation Books in One (Ultimate Guide To Prosperity) The Richest Man Who Ever Lived: King Solomon's Secrets to Success, Wealth, and Happiness Simple Wealth, Inevitable Wealth: How You and Your Financial Advisor Can Grow Your Fortune in Stock Mutual Funds Goals-Based Wealth Management: An Integrated and Practical Approach to Changing the Structure of Wealth Advisory Practices (Wiley Finance) Rich Dad Advisors: Tax-Free Wealth: How to Build Massive Wealth by Permanently Lowering Your Taxes The Color of Wealth: The Story Behind the U.S. Racial Wealth Divide Tax-Free Wealth: How to Build Massive Wealth by Permanently Lowering Your Taxes (Rich Dad Advisors)