

UBS Perspectives

Can behavioral economics lead to better choices?

Polling question: How would you best describe yourself?

An optimist? A pessimist? Or am I a realist?

So, Professor Sharot, what do you make of the poll?

Well, it's quite interesting that no one says they are a pessimist. So, in cultures where being an optimist is considered a good thing like in the US, for example, more people tend to say that they're optimists, and in cultures where it's considered a beneficial thing to be a pessimist or realist, people tend to say that they are pessimist or realist, but there is not a huge correlation between them when we test people on our methods and exams.

Can you explain the ways in which behavioral biases can be both an obstacle and a tool in influencing others?

We can talk about two of the most robust biases, which is the optimism bias and the confirmation bias.

Let's start with the optimism bias - so the optimism bias is our tendency to overestimate the likelihood of positive events in our lives, such as professional success, having talented kids and underestimate the likelihood of negative events in our lives, such as being ill, getting cancer, getting divorced, being in an accident.

When we do studies on the brain we find, for example, if I tell you you're likely to get more on that investment than you thought you would, people tend to take that information and change their beliefs a lot, but when I give you bad news, I tell you the data suggests you're going to get much less on that investment than you thought, people did tend to disregard that.

Confirmation bias is our tendency to take in information that confirms what we already believe, whether good or bad, and to relatively disregard data and opinions and information that disconfirms what we already believe. So, for example, if you think that investing in company A is a very good idea, and I show you data that supports that, you will take it in, and you'll become very confident.

But if I show you data that goes against it, you may become a little bit less confident, but not so much. People really take in opinions that confirm their beliefs. Less so those that don't.

We find that the "brain" shuts down when we come in and say, 'you're wrong.' The brain shuts down and it doesn't really encode the information coming from what we call the disagreeing partner.

But if we start from a point of commonality, something that we do agree on and go from there, the other person is more likely to see us as an agreeing partner and therefore more likely to encode the information that we're giving them. So, what is it we have in common?

Maybe the motivation that we have is a common goal. Maybe there's some points that we agree on, and if we start from there, we are more likely to influence the other party.

Why are emotion and stories so important when it comes to altering beliefs and taking action?

Well, if you think about how humans evolved, if you think about our ancestors, the way that we learned was from the people around us, stories of what happened to people in our tribe. And the reason that's important is that emotion tends to focus your attention on something, and you tend to remember things better.

So maybe bring it a little closer to sustainability. Have you done work in that space, and how could we apply those learnings to conversations with our clients about investing sustainably?

I specifically looked at the confirmation bias in the domain of climate change and what we wanted to know is whether we could change people's beliefs about climate change by giving them information. Now in this case it was actually fake information, not real, and we wanted to see whether people will be more susceptible to that information based on what they already believe.

"And so, one thing to do is to try to reframe our message by highlighting the action that needs to be taken to get to the goal that we want, rather than focusing people on the potential negative outcomes."

So, we had a few hundred participants, and we gave them a questionnaire to see their current beliefs about climate change. And so, based on that, we divided them into the skeptics and the believers. And then we asked them by how much you think the temperature would rise in the next 100 years.

So, they put in their answers and then we gave them one of two pieces of information. Each person got a different one, so we said, you know, scientists have reevaluated the data and now believe that things are much worse than they previously had, and the temperature is going to rise by a very high amount, and we gave them a number.

And to the other group, we said scientists have reevaluated the data and now believe that in fact, they made a mistake and it's not going to be so bad. It's just going to rise by a very, very small amount. And after we did that, we said OK. So now that you heard this, what would you think by how much will the temperature rise in the next 100 years? Each group was impacted by information that confirms what they believe, and they become more confident in that direction, and they didn't budge much when they heard opinions from the other side.

So, what that resulted in was polarization. So, people are getting all this information, but they're only or mostly taking information that confirms their beliefs. And that's causing information to drive polarization. And so, if we think about that, you know if you're talking to a client and that client is skeptic, will it help to show data that shows that climate change is not made and it's real? Maybe not as much as we hope, however, maybe we can use another way to convince people to invest sustainably, and I think the key is to highlight the benefits for the investor.

Are there incentives for the investor? Maybe there's tax benefits, so instead of getting into this argument about whether climate change is real or not, it is much more helpful to just use the normal behavior economics approach, which is making it very clear what the incentives are regardless of the question of whether climate change is man-made or not.

But if data alone is just a weak force in this, if you were charged with changing investor mindsets and changing the public's view on the topic of climate change, how would you do it?

One approach is to use incentives and it's related to try to start from something again that we have in common, which we discussed before and let me give you an example from the health domains from vaccines.

So, if we think back to that problem, which is that some individuals believe that childhood vaccines cause autism, many times parents come to their physician and they don't want to vaccinate their kids for that reason. And the physician usually says here's the data. There isn't a relationship, and studies show that doesn't have much of an impact.

And so, then a team at UCLA said maybe we could change parents' intentions of vaccinating their kids, not by focusing on the relationship to autism, which is a point of that we disagree on. Can we use a different route? And so, what they did was they didn't talk about the relation to autism at all.

They simply highlighted that these vaccines would protect kids from potentially deadly diseases such as the measles, rubella, and by doing that they were able to increase parents' intentions of vaccinating their kids three-fold.

So, by focusing on commonalities, something that parents didn't disagree on. They didn't disagree on that point but highlighting how that's going to help and the incentives was very helpful.

How can we use the dynamic of crowd influence to drive adoption of sustainability? Your work suggests that our individual decisions are not independent.

The majority opinion will influence the individual opinion to a great extent. You know there are cases where we have very strong opinions and we're not influenced, but on average our beliefs and choices are very much influenced by what other people think. Because we're social animals, we care about what other people are thinking and doing. We want to do the same.

We want to do it better and we think, well, if the majority believes or does something, they probably have some information that I don't. So that is also a tool at changing behavior and changing beliefs.

If we take one example, the UK government used that to get people to pay tax on time. So usually when people don't pay tax in time, they would send them a letter and that letter explained how important it is to pay tax on time and that didn't really work very well.

So, then they added one sentence and that sentence said 9/10 people in Britain pay their taxes on time, and that one sentence enhanced compliance by 15% and is thought to bring the government £5.6 billion, so simply revealing the actions and decision of their majorities is a very strong motivator to change behavior.

Can you talk a little bit about choice? If our clients had more personalized or customized options available to them, would it enhance the adoption of sustainability? And what are the potential insights from your studies of the ramifications of having too much choice?

There's an interesting phenomenon. It was already shown in the late 60s, by which making a choice changes your preference. So, the mere act of making a decision changes your preference. Let me give you an example. So, imagine that you have two projects you can work on. One will take you to London and one will take you to New York and they're both great and you don't know what to choose, but you must choose one. So, you say, OK, I'm going to go with New York.

What we find is that seconds after making that choice, people re-evaluate the options they rationalize their choice, and they say, oh, it's great that I chose New York. I'm going to see theatre and you know, it's lovely and it's a good thing that I didn't choose London it will be grey and rainy. So now they value the option that they chose more than they did just a few seconds before they made the choice. So now New York seems a great option and London doesn't seem as good just because they made the choice.

This doesn't happen if someone else makes a choice for you. It only happens if you make the choice yourself, or at least you think you did.

Some of your work has focused on the concept of agency. We have had this incredible real world work experiment over the last 18 months, with workers being out from under the eyes of managers. Could this ironically lead to an increase in productivity and maybe also creativity? How do you anticipate it plays out in a hybrid work environment?

So, the major thing that our brain is trying to do at all times, is it's trying to control its environment in order to gain reward and avoid harm.

So anytime that we feel in control, we feel we have agency that enhances our wellbeing. And anytime that we fail, controlling agency has been restricted that causes us anxiety and this, by the way is why people are often anxious on planes. It's not just that they fear the worst, it is that on the plane you have no control, no agency, what you're going to eat, when you're going to get there.

I can tell you that we did look during the pandemic to see what the most important factors for people's wellbeing and we found that the number one factor that positively influence people's wellbeing was a sense of agency.

Those individuals had a sense of agency during the time of lockdown, when really your choices were limited. Those were the people that really thrived the most and the second factor was income. But income had only half the effect of agency.

What have your studies shown about the factors that were most important during the pandemic for well-being and resilience?

Demographics had a strong effect. We found after income, age was a significant factor, and in fact it was older individuals that did better than the younger individuals. And I think that makes a lot of sense during the pandemic because it was the life of the younger individuals that was most disrupted.

We see a very interesting effect that's been replicated many, many times across the world where happiness follows a U shape over life. So, it starts quite high in teenagers and kids. And then it goes down, down, down and it reaches rock bottom in your midlife.

But then it starts going up again, which people don't really know. It goes up until the last couple of years of life. So, this kind of idea of the grumpy old man doesn't really work. So, age was important and then things like good health insurance was important and risk how much risk did you think you were in in terms of getting COVID-19 and related to that, we actually found a very strong optimism bias by which people believed they were less likely to get it than other people of their age and gender. That was a very strong effect.

"So according to that rationale, by giving employees more choices, I think it certainly enhances our sense of agency. And as a result, can enhance wellbeing and positive affect which could enhance creativity."

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