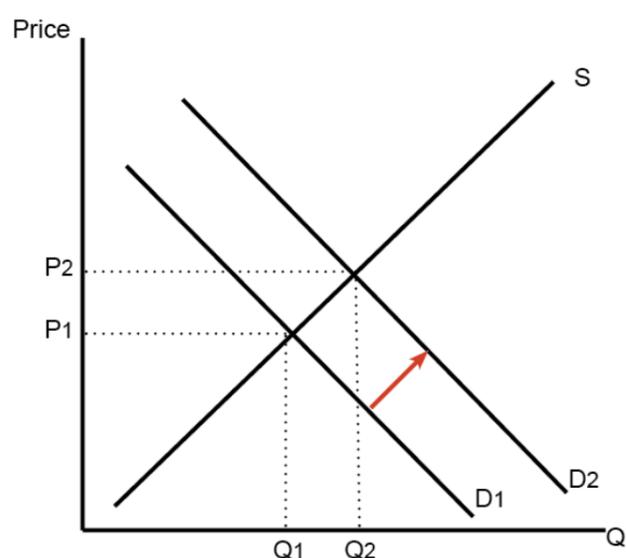


Nudges - Successful or Forceful

To prevent irrational decision making, both public and private organisations, across the globe, are showing keen interest in 'nudges' - 'any aspect of the choice architecture that alters people's behaviour in a predictable way without forbidding any options and significantly changing their economic incentives.' Consumers are often unaware that they are being influenced to behave in a specific way, considering a 'nudge' could be as small as calorie/sugar counts or more prominent, such as the location of products in a supermarket. A nudge is not a mandate. Whilst putting the fruit at eye level counts as a nudge, banning junk food does not, as this enforces decisions on the consumer rather than adjusting their choices



Understanding that when faced with a decision, an individual's behaviour is not always in alignment with their intentions, as humans are not fully rational beings and will often do something that is not in their own self-interest, even when they are aware that their actions are not advisable. A good example of the application of this theory can be seen in the UK pension policy. The theory was that many people wanted to put more money aside for retirement, but they were put off from doing so by the need to make perplexed decisions. This scheme was designed to make savings default for employees and thus make it easier for them to do what they really wanted to and push up savings, to potentially reduce the effect of a nudge.

A nudge would, in theory, lead to an upwards shift in the demand curve, potentially increasing demand at the same price point, thus increasing profit assuming there's a non-scarce supply and each unit results in profit accruing. Consumers constantly want to enlarge their utility, implying that they will go for the product that they believe will provide them with the most satisfaction. Businesses have a profit incentive which means that their main aim is to maximise revenue. The imposition of a nudge would increase the capital received by a firm. However, the intensity of the effect depends on the elasticity of the demand.

By their very definition, nudges use 'mental models that give inferior status to consumers' motivations and abilities'⁴. The false assumption is that almost all people, almost all the time, make choices that are in their best interest or at the very least are better than the choices that would be made by someone else. In parallel with behavioural economics, where nudges originated, the field of motivational psychology has also made vast strides over the past decade in understanding how to motivate and empower consumers to good decision for themselves. Unlike nudge marketing, motivational psychology relies on strengthening consumers' resolve and arming them with the willpower and the knowledge needed to make righteous choices on their own. For nudge theorists, it is better if the architecture helps people follow their desires rather than dragging them away from it. It is not obvious why an automatic 'opt out' of a pension plan is less manipulative than an 'opt in' of a pension plan, highlighting that a nudge is not a 'trick' but a gentle signal.

In the language of economics, a group is said to 'display behaviour that is dynamically inconsistent; initially people prefer A to B, but they later choose B over A. One radical method that can be habituated to resist such 'tricks' is to adopt internal control systems, otherwise known as mental accounting- a system used to evaluate, regulate and process home budgets. Utilising mental accounts can be profoundly valuable as they make life both more fun and precise. If the government optate to encourage savings, it will be consequential to direct the incremented savings into a mental (or authentic) account where spending it will not be too big of a 'temptation'. Encouraging numerous people to create saving

A series of studies directed by Solomon Asch, an influential social psychologist, studying if and how individuals yielded to or defied a majority group and the effect of such influences on notions and opinions. A test of visual perception was employed, where the participants were authoritatively directed to match a line to one of the three comparison lines, that is identical to them in length. Majority of the participants had consistently conformed to the wrong answer, due to the need to be 'right'. The participant was placed with a group of confederates; the participants had no reason to require those strangers to 'like' them. Asch's study shows us that social pressures nudge people to accept things that we may not believe are true - and these decisions might affect our department

Subsequently, the effectiveness of these behavioural processes can be questioned as it could be argued that one would be better served by more traditional tools, including incentives like cash rewards, to change behaviour. It could be said that the most efficient method of changing consumer behaviour is to provide them with an incentive or alternatively change the cost-benefit of products.