What is it all about?

- Read *et al.* (1999) choice of videos
- Either ‘high-brow’ (e.g. *Schindler’s List*)
- Or ‘low-brow’ (*Four Weddings and a Funeral*)
- Some chose for tonight, some for two weeks hence

- For two weeks, 29% chose low-brow
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- For tonight, 66% chose low-brow!
The Dismal Science

- Economics concerns incentives of all kinds
- Prices provide an incentive to trade
- Labor contracts provide an incentive to work
- Crying provides an incentive to breastfeed
- The threat of foreclosure provides an incentive to repay loans (*cf* the Bolivian constitution)
The Dismal Science 2.0

- **Behavioral** economics incorporates ideas and theories from psychology & elsewhere
- E.g. bounded rationality, heuristics, and emotions
- Methods include:
  - Mathematical models
  - Observational empirical work
  - Laboratory experiments
  - Field experiments
- Now part of the mainstream: Kahneman’s Nobel
Playing games in the field
Choice of how much to save or invest may depend on information and on risk tolerance, but also on how much weight people give to the future.

Neoclassical economics assumes that these discount rates vary across individuals, but that they are fixed across the lifespan.

Testing an intervention that tries to teach young adults to [want to] plan for their future selves.

Importantly, this will be interacted with small grants to start a business.
Time Inconsistency

- Different from not caring about the future is getting it wrong: recall the video choices!
- Extensive literature in psychology (‘affective forecasting’) showing that people are bad at predicting their future preferences
- I’m going to start exercising regularly… tomorrow!
- Introduces a rationale for commitment devices, like William the Conqueror burning all his ships
A Commitment to Saving

- Here the strategic interaction is with yourself!
- Giné/Karlan/Zinman (2010) mixes the idea of regular savings deposits with smoking cessation, finding that the combination works amazingly well.
- Now there’s a website (www.stickk.com) where you can write contracts regarding your future actions.

stickK
put a contract out on YOURSELF!
Applications

- There exists a demand *from users* for products that apply behavioral principles to improve welfare
- Another example is the recent success of ‘savings lotteries’ (instead of gambling) in Michigan
- You’ll see lots more from our great panelists
- One last fun instantiation of behavioral work is the new field of **neuroeconomics** (& neuromarketing)
Brain of a Confused Economist

Images courtesy D. Krawczyk