

# Behaviorally Informed Financial Services Regulation

Michael S. Barr, Sendhil Mullainathan, & Eldar Shafir

## A Behavioral Overview

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## A Tale of Two Views

### The predominant view (Rational agent model):

well informed; stable preferences (mostly about tangibles);  
controlled, self-interested (selfish), calculating

Implications: people maximize; know what's knowable,  
exploit opportunities; need no help from others, and no  
protection from themselves.

### Behavioral (empirical/experimental) view:

mediocre judgment; malleable preferences; impulsive,  
myopic, trusting and vindictive

Implications: inconsistent, ineffective; could  
benefit from some attention and help.

# Judgment in context:

Please estimate the average number of hours you watch television per week:

1-4   5-8   9-12   13-16   17-20   More than 20

**X**

QuickTime™ and a  
IFF (Uncompressed) decompressor  
are needed to see this picture.

Please estimate the average number of hours you watch television per week:

1-2   3-4   5-6   7-8   9-10   More than 10

**X**

# Context & Conflict: The proliferation of options

Shoppers in upscale grocery store encounter tasting booths for jams:

**6 jams:** (40% stopped); **30%** bought  
vs.  
**24 jams:** (60% stopped); **3%** bought

(Iyengar & Lepper, 2000; B. Schwarz, 2000)



401(k) options: For every 10-option increase, individuals' participation probability declines by ~ 2%

(Iyengar & Jiang, 2005)

# Percentage who Cooperate in Prisoner's Dilemma Game

(among students chosen by resident advisers  
for being most likely to cooperate / defect)

## “Community Game”

“Most likely  
to cooperate”

68%

“Most likely  
to defect”

75%

## “Wall Street Game”

“Most likely  
to cooperate”

32%

“Most likely  
to defect”

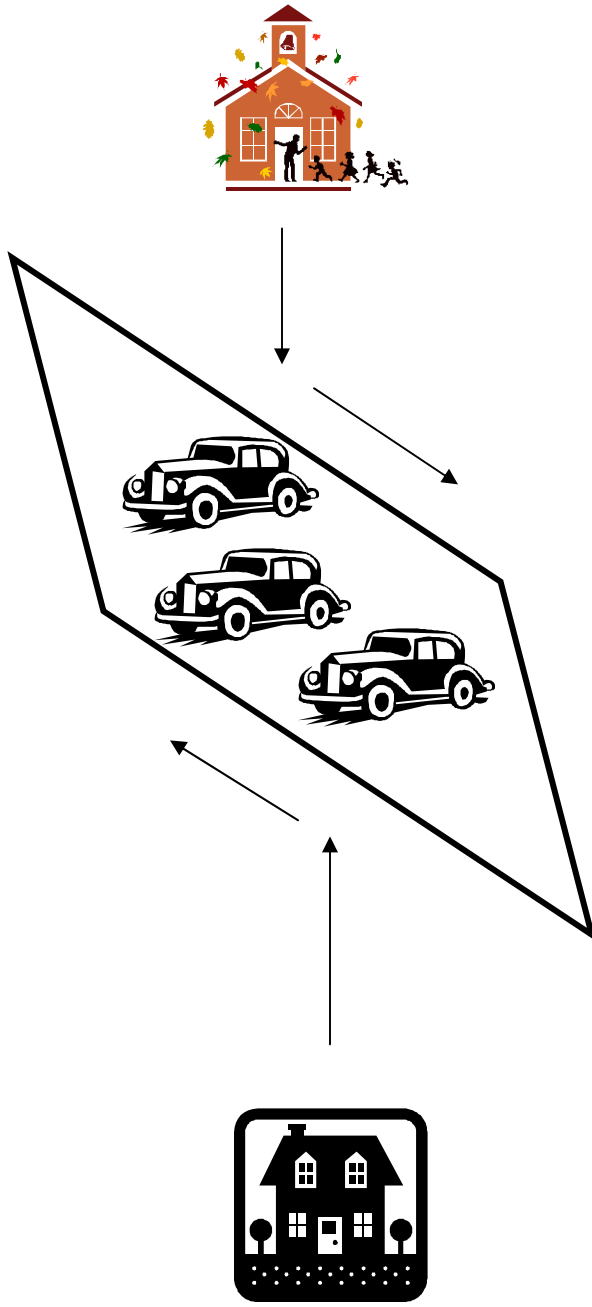
33%

# The Power of Defaults

(and Libertarian Paternalism)

QuickTime™ and a  
TIFF (LZW) decompressor  
are needed to see this picture.

A minor contextual nuance  
alters the path you take...





24  
HOUR

FITNESS

FITNESS  
WORLD'S BEST  
BY ENR  
WORLD'S BEST  
FIT CLUBS

WE HAVE LO...  
FIT CLUBS

FITNESS

24  
HOUR

POINT LO...  
HANDICAP  
TO UPPER  
LOCATED  
24 HOUR

## Channel Factors (Lewin)

Contrary to major interventions that prove ineffectual, apparently minor situational details can have a large impact...

- persuasive messages about risks of tetanus and value of an inoculation

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## Take-up of bank accounts, (Bertrand, Mullainathan, & Shafir; Center for Economic Research & Shorebank; Providing low-fee bank accounts to poor)

- Almost 50% take-up;
- Follow-up surveys: 90% intended to...
- Workshop, if workshop participant interested in FA:
  - Control: Referral letter to take to the bank
  - Experimental: Sign up on site with bank representative present at the workshop
- Presence of a bank representative: significantly increased opening and keeping an account.

(Intervention has greater impact than choosing to be there or not...)

Because context plays such a key role:  
Intention-Action tension

Actual prob. of behavior: often does not increase with  
intention strength (“failed” educ.)

Manipulations designed to strengthen intentions:  
larger impact on self-predictions  
but not on behavior (“misjudgment”)

Manipulations designed to influence ease (e.g., access,  
reminders):  
larger impact on behavior than on  
self-predictions (increased welfare!)

“Where standard intuition would hold the primary cause of a problem to be human frailty, or the particular weakness of a group of individuals, the social psychologist would often look to situational barriers and to ways to overcome them.”

Ross and Nisbett, 1991

Once we accept “human frailty:”

Evaluation of policy success can become less straightforward:

The mere fact that a program is self-sustaining / profitable may not resolve questions of its social efficacy (e.g., check cashers; payday loans; credit cards!....)

Considerations of ethics and morality may be altered:

Opt-in arrangements, long forms, fine print, greedy brokers, may be not just another “cost” but, rather, a serious impediment to welfare...

