

# Study Guide for the Australian Collaboration Fact and Issue Sheet

## BEHAVIOURAL ECONOMICS

### FOR REVIEW

1. What do you understand by the term Behavioural Economics?
2. What is Neo-Classical Economics?
3. What are the essential differences between behavioural economics and neo-classical economics?
4. Behavioural Economists claim Keynes and Smith used behavioural economics. Choose one of these leading economists and explain how he used Behavioural Economics in his research.
5. If leading economists have used Behavioural Economics principles for over 100 years, what, then, is 'new' in relation to Behavioural Economics?
6. List one example of classical economics can be modified by behavioural economics?
7. Why is it that more choice may not necessarily be better?
8. How does each of the following influence human behaviour and economic decision-making?
  - ▶ hyperbolic discounting
  - ▶ irrational exuberance
  - ▶ miscalculating probabilities
9. In New Zealand, the KiwiSaver scheme uses principles of Behaviour Economics. Explain how this scheme uses the power of defaults.
10. What advantages do you see in the wider use of Behavioural Economics that are not offered by Neo-Classical Economics?

### FOR DISCUSSION

11. Behavioural Economics is a growing field within the discipline of economics. Complete a SWOT analysis of Behavioural Economics.

Strengths	Opportunities
Weaknesses	Challenges

12. What do you think would be the benefits of a greater use of Behavioural Economics principles in public policy decision-making?

Discuss whether there should be greater use of Behavioural Economics in public policy decision making.
13. Is Behavioural Economics a modification of Neo-Classical Economics or an entirely different field of economics?
14. Given that more choice is not necessarily better, according to the Behavioural Economists, should Australian governments continue their emphasis on greater competition in the economy?

## FOR RESEARCH

Read the lecture presented by Louise Sylvan which can be found at: <http://www.accc.gov.au/content/index.phtml/itemId/727562/fromItemId/8973>

In the section “Economics for the demand side”, Sylvan outlines what she believes are the advantages of behavioural economics over neo-classical economics.

**15.** What are “systematic departures from ... rational behaviour”? Use a Think:Pair:Share activity in your class to give examples of how this might be true for many consumers.

**16.** In the section “Behavioural Economics – Consumer Biases” Sylvan considers some major consumer biases. What are the impacts of each of these? Complete the table below.

Consumer Bias	Behavioural Impact
Over-confidence	
Confirmation Bias	
Framing Bias	
Loss Aversion	
Heuristic simplification	
Choice Overload	
Anchoring	
Default Bias	
Time variant preferences	

**17.** In view of the above consumer decisions, and their economic impact, does it matter that consumers don’t rationally calculate their best options in market transactions? Work in pairs to research market deregulation, and the financial sector markets to answer this question. Share your research.

**18.** Use this research to discuss Sylvan’s view that “it seems to me that the powerful combination of conventional economics and behavioural economics ... makes ultimately for better implementation of policy decisions in consumer protection.”