ONLINE SPLASH 2020
BEHAVIORAL ECONOMICS

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TODAY’S AGENDA

Introduction

Real life examples

Q & A
GOAL

Become a better decision maker!
A bat and a ball cost $1.10 in total. The bat costs $1.00 more than the ball.

How much does the ball cost? _____ cents
Ball and Bat Problem
A bat and a ball cost $1.10 in total.
The bat costs $1.00 more than the ball.

How much does the ball cost? ___5___ cents
Stan says:
April 27, 2012 at 10:20 pm

baseball + ball =$110

Bat =$100
Ball =$10

So bat is $100 more then $10 ball.

I must be blind cause how on earth does someone come up with $5
two systems of reasoning

system 1

system 2
two systems of reasoning

**System 1**
- automatic
- fast
- effortless
- intuitive
- emotional
two systems of reasoning

deliberate

slower

effortful

logical

cold

system 2
system 1 has biases
systematic errors
cannot be turned off
do people always figure out when system 1 has made a mistake?
THE STROOP TASK
(SAY THE COLOR OF THE WORD)

RED
GREEN
THE STROOP TASK
(SAY THE COLOR OF THE WORD)

YELLOW
BLUE
PURPLE
ECONOMICS

the should

rational

economic theory

system 2
BEHAVIORAL ECONOMICS

the do
not so rational
biases
system 1
Would you like to receive $1 today or $2 next week?
(assume that your chance of receiving money is 100% in both cases)
IS HAVING MORE CHOICES ALWAYS GOOD?
THE JAM STUDY

6 JAM SAMPLES
THE JAM STUDY

24 JAM SAMPLES
More shoppers would be likely to buy the jam...

a. after they encountered 6 jam samples

b. after they encountered 24 jam samples
THE JAM STUDY

6 Jam Samples vs. 24 Jam Samples

Attracted 40% of shoppers vs. Attracted 60% of shoppers

Shoppers sampled 2 flavors on average vs. Shoppers sampled 2 flavors on average

30% of shoppers bought the jam vs. 3% of shoppers bought the jam
THE OPTIONAL ESSAY STUDY

6 Essay Topics vs. 30 Essay Topics

74% completed assig. vs. 60% comp. assig

8.09 points (1-10) vs. 7.89 points (1-10)
CHOICE OVERLOAD
What happens when you give someone too much choice without good reasons?
TAKEAWAYS

- Decision makers are not rational as predicted by economics
  (ball and bat problem, present bias, choice overload)

System 1

the do
not so rational
behavioral economics

System 2

the should
rational
economics
Decision making is fun!
Make smart decisions!