**Impact of Behavioral Economics on Health and Poverty**

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**Behavioural Economics**

There are certain theories that have been presented by various economists to help understand complex situations. These theories should have the same arguments and conclusions over the period of time. Generally, the assumptions that are made in any analysis are either incorrect or make the model too much simplistic. There can be abstractions that should not be invalid or incorrect. The study of economics requires that some models are developed and some rules are applied. Behavioural economics is concerned with the study of the decision-making process and the challenges that are faced by the decision makers. This is different as compared to the traditional view of economics as in that aspect, there are certain assumptions that are false. This makes the lives of traditional economists much easier. When any person is taking a decision, the natural barriers of the human capacities do not allow him to be purely rational. Their theorists have identified two major kinds of people in the decision-making aspects. The Icons are the ones who are purely rational in all the decisions that have to be made in life. These people make only those decisions that will result in an increase in their economic welfare. Their decisions are least affected by the market conditions as their preferences have already been formed by themselves. There is nothing like satisficing in the lives of these people. They always opt for decisions that completely maximize their satisfaction. The only reason to make some decision for these people is the self-interest (Rice, 2013). Some researchers say that human decisions are affected by bounded rationality. This aspect relates to the fact that human beings face certain limitations while making some decisions. They relate to the limitations of the information that a person can process or recall at the time of making some relevant decisions. The human brain can assess some limited information and it can also process some limited amount of information at a given point in time. This aspect is referred to as the procedural rationality(Simon, 1955). The behavioural economics aspects will simplify the information so that it becomes easier to use for the general public. Surgical errors and airline crashes may be prevented by making some checklists that identify some multistep procedures.

**Decision making as a process**

This process is started when the person identifies the existence of some problem and tries to figure out some possible solutions. All these alternative solutions have to be analyzed in terms of their ability to solve the problems faced by the people. The traditional economists ignore this long term process of the choice between the various available options. The person is able to make the decision about what to do in some particular situation after this process of choice. It may turn out that the decision that has been taken is not viable and it is not possible to implement it. In that case, the person will have to go to the plan B. The product may not be available in the first place about which the decision has been made.

If this aspect is applied to the health and poverty problems, we can compare the decision-making process to the psychological theories referred to as dual process theories. The decision-making process is either governed by some intuitive processes and these decisions are very fast and do not require much of the effort to be put in by the decision makers. On the contrary, in the case of some people, the decision-making process may be slower, controlled and will require a lot of efforts. This difference in decision making is attributable to the differences in human beings as they make decisions (Thaller, 2017). Both the aspects of this study namely health and poverty require some quick decision for the solution to the existing problems but the lack of resources at the hands of the government and other authorities will make the decision-making process slower and time taking.

**The Emergence of Behavioral Economics**

The government wants to change the behaviours of the general public when it wants to implement some policies. In other words, the successful implementation of any policy means that the behaviours of people towards a certain aspect have been changed. The model shows that there are people who have consistent preferences over a period of time. They show the utility-maximizing behaviour over a period of time. If complete knowledge is not available, the public policy takes on the offer of information as an instrument. The model has been used by many researchers such as (Simon, 1955). The assumption of rational decision maker was challenged by the researchers and this laid the cornerstones for a new field named behavioural economics. The basics of this field can be seen in the research work by Daniel Kahneman in the 1970s. This branch of economics is based on empirical evidence on what is happening rather than what should be happening as was the case with traditional economics.

This subject emerges from the basic assumptions of the rational model of economic behaviours. Especially the assumption of complete rationality which makes the things very simple. Behavioural economics is based upon an empirical examination of how human beings make decisions. The decision-making agents that are used in behavioural economics are subject to the use of certain rules of thumb commonly known as heuristics. Use of heuristics leads to the systematic errors which may include that the decisions are made automatically and out of intuition. The behaviour becomes completely opposite to the self- interests of the people. The people pay lesser attention to the present benefit as compared to future benefits. This aspect helps to explain the tendency to save less and spend more.

**Behavioural economics and public policies**

The application of various aspects of Behavioral economics has been observed in public policy areas. The impact of many human factors on the behaviour of the people has been observed after behavioural economics has been studied. The factors studied in behavioural studies have been applied to improve the overall living standard of the people living at a given place. The options that are chosen by the people have a direct impact on the way people think about various things. Any program that has to be implemented for the improvement of people must be in line with the evidence from behavioural sciences. A small change in the medium that is used to communicate the information may have a significant impact on the decisions taken by the people. There are some default decisions that had been taken by the people in the past also have an impact on the decisions taken by them in the present (Antonio Claret, 2017).

The application of behavioural economics concepts has gained popularity at the country as well as the global levels. The first specific team that was tasked to develop the insights for behavioural sciences was developed in the United Kingdom. Other countries of the world followed suit. Many international organizations have pointed out the importance of considering the conceptual aspects of behavioural research. The making of the teams for behavioural aspects by the UK and the USA served as a nudge for all other countries. This term is defined as any change in the architecture of choice that changes the behaviour of the people in a predictable way without restricting the choices by forbidding any alternative for them. The use of behavioural aspects is spreading across the world. The government of the US has asked the various agencies to experiment with different options that are cost-efficient and at the same time will increase the efficiency of the system. Some governments are taking insights from the various behavioural and social sciences subjects to make the lives of the people better. Other units have worked as a nudge in Australia and some other countries.

**Health and Behavioural Economics**

The outcomes of a decision process can be judged based on how fast someone can remind of a particular related example. This may include some aspect that is very popular or readily discussed in the news. Behavioural economics suggests that some behaviour can be related to a certain population. The youth can be more reluctant to take drugs if they hear about the death of some celebrity due to drug intake. The availability heuristic has been applied here.

The people were not able to adhere to their health issues if there were no costs to be borne over a period of time. In other words, people do not think about the long-term future benefits if they do not see any monetary loss in case they do not adhere to certain practices. The behavioural economics help in this by offering some devices to help the people make such choices in the future which will be less costly. People will feel much easier to quit smoking and other relevant problems if they have filled in a bond in the past that will break if they fail to achieve desired results. The concept used here is time inconsistent preference.

People will react to the same situation differently provided that the results have been presented in the form of losses or gains. The same scenario may be presented in the form of 80% chances of survival or 20 % chances of death. The role of behavioural sciences comes in, when the positive outcomes are desired then the gain-based outcomes are presented and when the desire is to curb some unhealthy behaviour then the loss-based outcome is promoted. These are the framing effects that the messages have on the people.

**The role of behavioural economics in improving public health policy**

The health department has been identified as a fertile area to apply nudges. Thaler and Sunstein bring in new nudges for health aspects such as the simplification of decision making in the health department. The system of the health insurance that was in place in the organizations turned into an opt-out option from the opt-in option. This means that the employees were not asked whether they want to avail the opportunity of the insurance, they were automatically entered into the insurance system once they are employed. The options were given of they want to quit this facility.

Nudges can be effective because people react to those influencers that are new and are visible more easily. Lonely if the person is asked to make a health plan, the person will start implementing some things to improve the health aspects. These aspects may include healthier eating and screening for various diseases. A study found that when the patients were emailed the time of their next influenza vaccination, vaccination increased by 36%. The other nudge was even more simple, instead of telling the persons that they will be vaccinated at a given date and time, they were emailed a card that needed them to write what time and date will be suitable for them to be vaccinated.

The framing aspect has been found very important in many situations related to the health aspects. This includes messages about the use of sunscreens and mammography utilization. The messages that highlight the gains more than the losses are more helpful in impacting the prevention. The message that was focused on the loss was more effective when the screening behaviours had to be encouraged.

The status quo bias is such that the people tend to follow the past decisions and they do not reverse the decisions. The behavioural science makes the healthy option, the default option. Thus adding some healthy food as a side to the children meals (Jennifer L.Matjasko, 2016)

**Poverty and Behavioral Economics**

The subject of behavioural economics is defined as the study of various influences on the economic behaviours of the people that is easily observable. This branch tries to implement the researches from other disciplines to show a scenario that is closer to reality. In this regard, major help is taken from psychology. The neoclassical economic models were unable to provide a realistic view of human problems. The main reason is that they attempt to simplify the human being as an economic unit.

The humans are not always looking for the benefit of their own, they are not calculating the costs and benefits of various options available to them and their preferences are not stable over a period of time. All these things are affected by the lack of complete knowledge on the part of individuals. The ability of the people to interpret and comprehend knowledge is also limited. Thus, we as human beings are affected by the information that has already been stored in our memory.

(World Bank, 2015) gathered information from a large number of papers from all over the world on human decision making. The report showed that there are three main ideas that should be considered while making and implementing any policy. First, there is automatic thinking while making judgements and choices and no deliberation is involved. The social thinking aspect states that the way people think is affected by the behaviour and thinking of other people. The mental model’s aspect shows that people living in a society share a common opinion on the functioning of the world around them. The things happening around us shape our thinking and the mental models shape the beliefs of the people about what is right, wrong and possible in life for them.

When we study the relationship between poverty and behavioural economics, we can find that these same points drive the materials interrelating these two things.

(Shafir, 2014) worked specifically on the behavioural aspects of poverty, they argued that the poor will think more automatically as the price levels will continue to rise in the market. They will not be able to think deliberatively. This explains many behaviours of the poor people including excessive borrowing and almost no savings.

A well-known theory culture of poverty tried to postulate that the culture of the poor had some specific characteristics. This approach was criticized by many people because it concluded that the poor were themselves responsible for their poverty. The impact of poverty on the minds of poor people is such that they are not able to think about the other tasks that need mental attention. This will affect the long-term economic condition of the person. Some other experiments show that the scarcity aspects take up much of the mental resources of the people and they are not able to focus on the major aspects of their economic lives.

**Theories and their relevance to the Scenario**

**Prospect Theory**

Kahneman and Tversky presented this theory and came up with the following generalizations

Gains and losses are treated differently, the people show risk aversion for gains and risk seeking for the losses. People tend to give more weight to the outcomes that have confirmed outcomes than those whose outcomes are not definite. The structure of the problem also affects the choices. The prospect theory is given by the above-mentioned people that can assess the behaviour of people in situations where the expected utility theory does not work.

**Maslow’s Hierarchy of Needs Theory**

The central idea of this theory is that human needs are not reducible and there are certain needs that have to be fulfilled before the person can go to the other levels of the needs. The theory can also be applied in the field of happiness research. The most important needs that have the priority have to be satisfied before the higher-level needs. This can imply that poverty will not let a person remain happy. If a person has to be happy, the basic needs should be satisfied and there must be ample opportunities for the person to move up the hierarchy (Grimani, 2013).

**Cognitive Dissonance Theory**

The economists have studied the various comparisons made by the individuals regarding social statuses but very little attention has been paid to the way these comparisons are taken out. The psychological research shows that the ways used to make these comparisons change and this change is systematic in nature. In order to alleviate poverty, the direct, as well as the indirect measures, should be taken into account. These indirect measures are concerned with social and psychological issues. These aspects create such dissonance that affects the poor to choose different ways to benefit themselves. Current policies like keeping up with the Joneses will increase the level of dissonance felt by the people of the lower class (Oxoby, 2004).

**Fast and Frugal Heuristics**

These are defined as simple decision strategies for solving certain judgement and decision tasks. Unlike many other models in the behavioural sciences, this aspect does not involve many computations. The outcomes of the process and the process itself is studied in this model. They have three simple rules namely the search rule that shows how the information will be searched, the stopping rule shows when the search will be stopped and decision rule shows how will this information be integrated into the decisions. The recognition heuristic exploits the lack of knowledge that is a part of rationality economics and takes the best heuristic that deliberately ignores the information. Both these heuristics can be applied to choose tasks. (ReisKamp, 2007)

**Conclusion and Recommendations**

Behavioural economics can be used to improve the situation in the public health aspects of society. This approach has its own limitations which have to be overcome. The term nudge cannot be defined with clarity and ease. Some aspects that have been introduced through nudges are parts of the traditional economic views. Some nudges simply provide information and change the marginal costs of marginal benefits associated with an option. An attempt to lower the level of salt in food and to reduce the levels of Alcohol are simple repeats of some health guidelines. The influence that defaults have in this regard shows the costs of taking up information or shifting between options which is consistent with the neoclassical thoughts.

We can have important insights into human behaviour when we study the concepts of Behavioral economics. When compared to the traditional economic theory of decision making, we can see that people are more prone to those decisions that will make they're present better as compared to the future. The loss of the thing that they already have will have a greater impact on them as compared to the consideration of things that they might have in the future. They are very sensitive to the monetary incentives especially those which are tangible in nature. People have limited capability on the mental fronts which makes them limited in certain decision-making aspects. Thus, they make use of the heuristics or rules of thumb to make such decisions. There is also a framing aspect to the choices that can affect the decision makers which can result in some inconsistent behaviours on the part of the people. The decisions that people make are mutable which means that they have evolved over a period of time and they are hugely affected by the environment around them. These preferences can be hugely affected by the advertising that is shown to the customers. All these aspects make the decision making more interesting than some people thought and also something that needs much more than the assumptions of hyper-rational consumers as in the traditional economic theory.

With regards to health and health care, the behavioural economic theory lends itself to the betterment of things. This is a domain where the consumers often lack the information. Further, whatever information they have, it is difficult for them to comprehend the most part of it. The things get worse because a wrong decision can be fatal in case of health and health sciences. The decisions taken by the people are not in their best interests in the long run. The nature of the health institutions is such that they offer a very fertile ground of applications of behavioural economics concepts.

**Policy implications**

The processes should be facilitated by the policymakers if they want to apply the concepts of behavioural economics to the system. Whatever system is implemented to improve the poverty situations and the health aspects of any society, there should be transparency in the process. If the process needs to fill up some forms, these forms should be made easier to fill. These forms must be different for all areas but the basic theme should be the ease of use. Some forms may contain the fields that are prefilled as they are unlikely to change over time. This will also help to speed up the process. The welfare programs in both fields should trigger more positive attitudes. The current programs offer some aspects that trigger negative feelings in the people. Some changes should be made to the structure of programs so that they earn a certain amount of goodwill. This will have a positive impact on the percentage of people that take up the initiatives. This will also encourage the people to participate in the programs more actively and to consider taking up the other aspects of the program. These programs should be decentralized from the federal governments. There should be two rules while running these programs at any level namely the minimum benefits rule that suggests that there should be some minimum benefits that the program should offer. The second rule is the maximum hassle rule that applies that there should be a maximum of effort in the minimum of time to achieve the targets. In my opinion, the most important aspect of behavioural economics that can be applied to the health and poverty problems is the framing aspect. The people should be given the information in such a way that they feel a win-win situation and feel happy to take up an option. The policymakers should also keep in mind that the people who are more affected by behavioural economics are more affected by decisions that affect their present situation more than their futures, so the policies should also be made accordingly. The policymakers will also have to study the past behaviours of the people and need to find out the major aspects that affect the decisions made by the people and then work on those aspects keeping in view the concepts of behavioural economics.

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