Understanding decisions

Quelle: http://www.reachingthefinishline.com/blog/7/19/2016/3-cognitive-biases-that-affect-our-decisions-every-day

(c) M. G. Kocher
Decision makers (consumers, firms) are not necessarily:

- selfish
- rational

(= homo oeconomicus)

A simple conceptual model

Behavior

Context

Preferences

Expectations

Source: IHS

(c) M. G. Kocher
Consequences

• If people’s behavior does not follow the basic homo oeconomicus assumptions and institutions/rules/norms in our society are based on these (wrong!) assumptions, we might face perverse incentives.

• Institutions might be designed sub-optimally.

• Competition law and enforcement are a set of institutions/rules/norms.

• Behavior of relevant decision makers is still systematic; evidence-based social engineering.
A few examples

- **Consumer:** Simple mistakes such as myopia, self-control problems (concerns aftermarkets or long-term contracts)
- **Consumer:** Complexity in contract menu choices (comparisons between different contracts; for instance decoy effects; framing matters)
- **Cartels:** Might be more stable than standard theory suggests (because of conditional cooperation among firm representatives)
Instruments: social engineering

1. Correct incentives

2. Helping with commitments

3. Nudging (choice architecture)
Commitment problems
Commitment problems

I.e.: Over-estimating one’s own self-control (naïveté)

- Credit card debt repayment
- Long-term contracts (paying not to go to the gym)
- Add-on pricing
- Endowment effect and trial periods
- ..
Nudging

I.e.: Constructing choice architecture; can be a partial substitute for regulation (often cheaper and less invasive)

Source: www.lehradvice.com
Examples for nudges:

• Framing
• Defaults, anchoring
• Order effects
• Access and usability (information)
• Reminders

Source: www.lehradvice.com
Conclusion

Taking evidence of *actual* behavior into account is necessary for optimally designing competition policy!