Behavioral Economics

- Economics based on the Economic-man assumption (Homo-economics based on economic rationality or self-economic-interest).
- Behavioral economics based on the human behaviors (Economic rationality and Intuitive rationality).
“A Beautiful Mind”

- Nash Equilibrium: Condition where any strategy cannot attain the maximum return.
- Both players will not attain the maximum return (Player A will stop at $400).

<table>
<thead>
<tr>
<th>Player A</th>
<th>Player B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return for A: $400</td>
<td>Return for A: $200</td>
</tr>
<tr>
<td>Return for B: $100</td>
<td>Return for B: $800</td>
</tr>
</tbody>
</table>

End

Return for A: $1400
Return for B: $300

- https://www.youtube.com/watch?v=CemLiSI5ox8
Examples (Framing Effects)

- 90% of buyers of this product was satisfied.
- 10% of buyers of this product was dissatisfied.
Examples (Prospect Theory 1)

- Buy this product. Send the proof of purchase so that you **will** receive $50 coupon for bread flour.

- Buy this product. Send the proof of purchase. You **may** receive $100 coupon for bread flour.
Examples (Prospect Theory 2)

- Buy this machine here for $600.
- Walk for 10 minutes to visit another store to buy the same machine for $590.
Why is Behavioral Economics important?

- Everybody has “biases” so that everybody looks at a thing differently (Biases in borderless markets).
- Need to develop effective strategies (ex. Marketing) and policies (ex. Financial regulations) in matured knowledge-society.
- Information Technology Revolution and information efficient society.
- Matured capitalism and capitalistic dissatisfaction.
- Social Media and social opinions and value diversification.
Benefits to know Behavioral Economics

- Predictions and planning.
- Strategy and policy development.
- Prevention or pro-active approaches.
- Segment development.
- Relationship management.
- Total satisfaction.
- Know more about “human beings.”
Thank you very much!

- If you are interested in Behavioral Economics, CWU will offer a course of Behavioral Economics at the Douglas Honor College in the next academic year. Please check it out!