Behavioral Economics and Consumer Policy

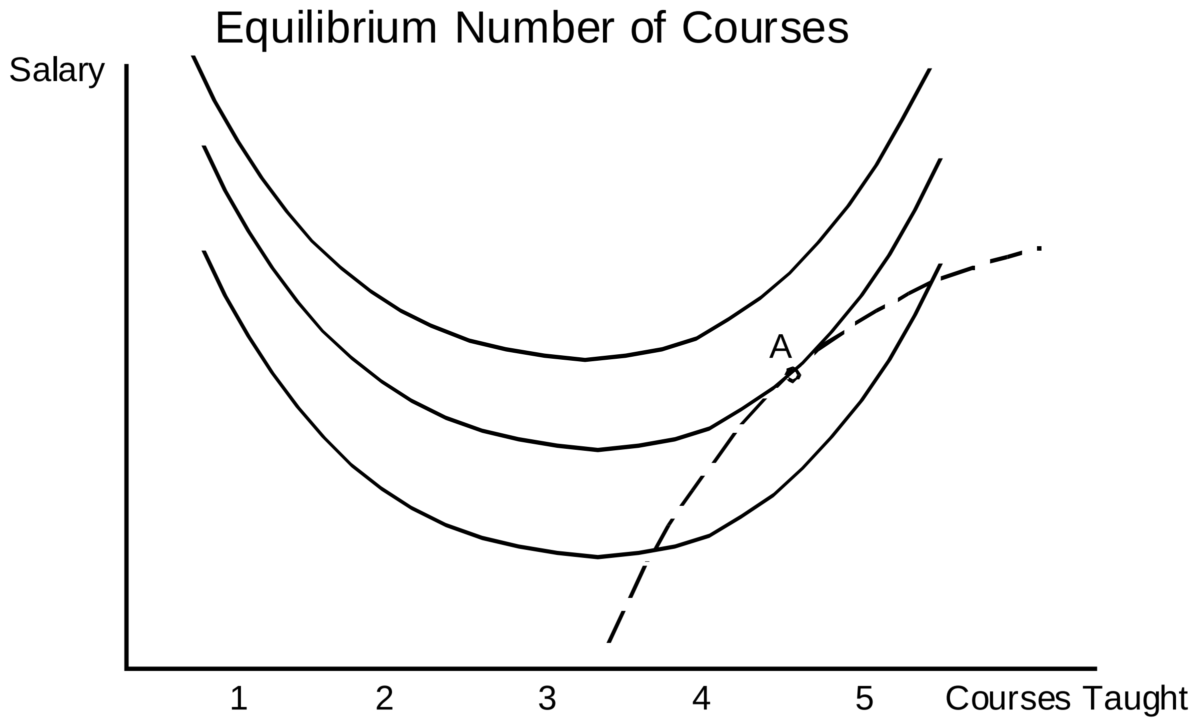
Edward P. Lazear
Chairman
Council of Economic Advisers

How we differ: An Example from Labor Economics

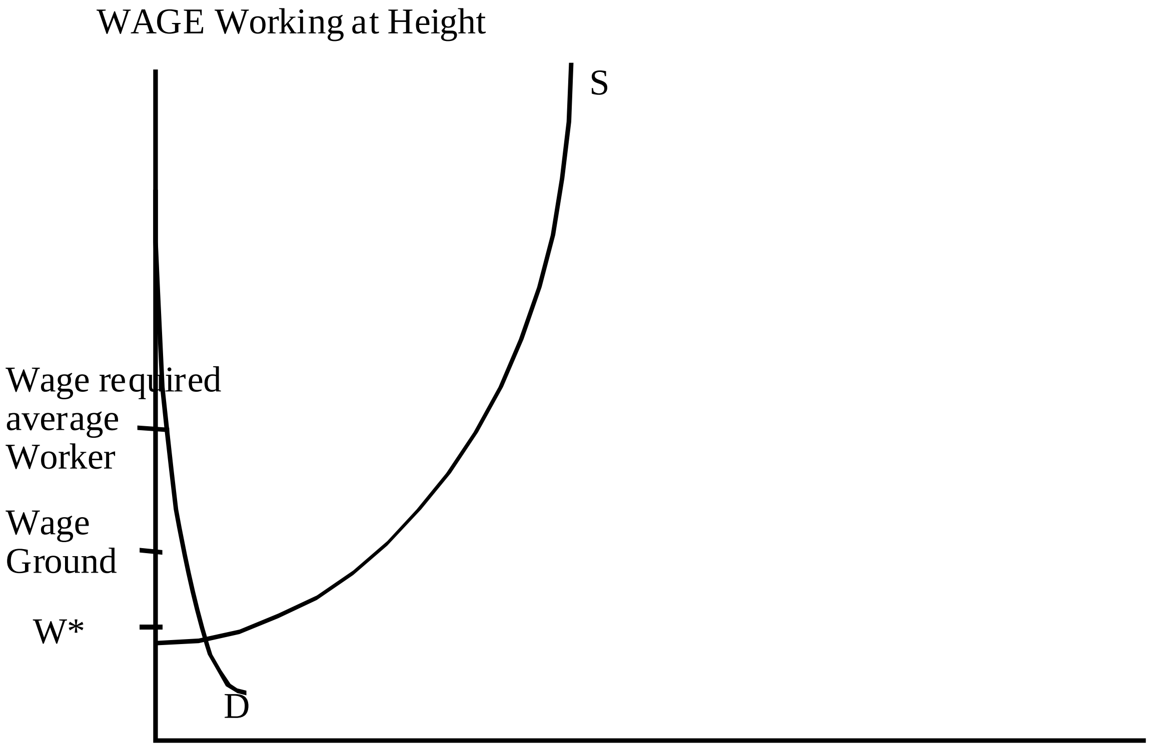
Moreover, the fact is that economics is not very helpful in managing people. This is because the fundamental economic theory of motivation is based on assumptions of effort aversion (people will not expend effort unless paid to do so), opportunism (people, in the pursuit of their own interests, will often misrepresent their true preferences and engage in guile and deceit), and a lack of goal alignment (employees in organizations have different agendas than the owners and, therefore, incentive systems need to be designed to force people to do what is right for the good of the organization). In the economists' view, people are assumed to be lazy, dishonest, and at odds with the goals of the managers.

Although each of these assumptions may be valid in a specific situation, or for a particular individual (for instance, when managing economists themselves), none is likely to be right in most settings with normal human beings.

- Charles O'Reilly and Jeffrey Pfeffer


Equilibrium Number of Courses
Salary
A
1
2
3
4
5
Courses Taught

In Markets: Marginal not Average Matters



Dictator Game with Sorting

- In dictator game, 74.4% share
- If given choice to opt out of experiment, 29.7% share

Choice reduces proportion who share, proportion who play, and amount shared