

The human equation in economics

Nathalie Spencer's love letter to behavioural science



Not your typical economic theory

For so long, economics has relied on a simplified model of being human: one where people assess all the information they have, make cost benefit analyses, and really deliberate on their choices. In truth, humans are, well, human! We rely on emotion and gut instinct a lot, and even when we think we are making a calculated 'rational' decision, we are swayed –often unconsciously – by the way the choice is presented.

Our behaviour depends on more than simply the information we have to hand.

Our psychology and cognition matter, what our peers are doing matters, and our environment and culture matters. All of these factors influence our decisions and actions in life and in business.

There are many quirky findings about how we interact with money that behavioural science explains. For example, people who were [shown a digitally aged photograph](#) of themselves were more likely to contribute more to their retirement fund than those who saw the current photograph. The thinking behind this is that people who see the photo of themselves as an older

person have more empathy with their future self.

The control premium

Consider the importance of the 'control premium', which is the tendency for people to want to retain control over decisions, even if it means they forgo some of their expected profits. What does that mean for financial advisers – [human or robo](#)? Or that some people have both savings and credit card debt, even though they would be financially better off to use those low-earning savings to clear their high-interest debt; it seems that liquidity is not the only reason, as some people do this to help protect their savings from their own impulsivity.

The bigger point to all of this is that a richer model of human nature considers our psychology and social ties. For example, we [recently found](#) that when it comes to financial capability, people's worldview about whether their lives are dictated by their own actions or by external factors outside of their control, their optimism, impulsivity, and whether they seek out or shy away from taking action were all factors related to their financial capability.

Making it sticky

We know these insights, but still have some questions to explore. How can these findings be used in product and service design innovation to help people manage their money well?

Many nudges have been found to work in influencing someone's behaviour

The next challenge will be to determine how to make those effects persistent, long-term, 'sticky'? These questions come at a crucial time when many people struggle with their finances. Across Europe, 29% have no savings at all, and a third of people who do have savings only have less than 3 months' pay saved up. Depending on where one is on this spectrum, that could be one broken boiler, medical surprise, or unexpected redundancy away from slipping down a slippery slope of financial distress.

But it's not just financial wellbeing that benefits from behavioural science; understanding how people make decisions is key for so many different aspects of life. So whether you're trying to predict the rise of robo-advice, interpret the central banks' murmurs on interest rate hikes, or better understand the complexity of how people manage their money, behavioural science offers a new weapon in the armoury.

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