



# **Social psychology in Economics**

## **Chapter 6**

# *Learning Objectives*

**Understand** the relationship between economic behaviour and social psychology

**Identify** social motivations in decision-making

**Evaluate** the role of moral sentiments and emotions in economic decision-making

**Understand** how institutions affect behavior

**Assess** the economics of empathy-induced altruism

**Identify** biases and blunders

**Understand** the choice architecture

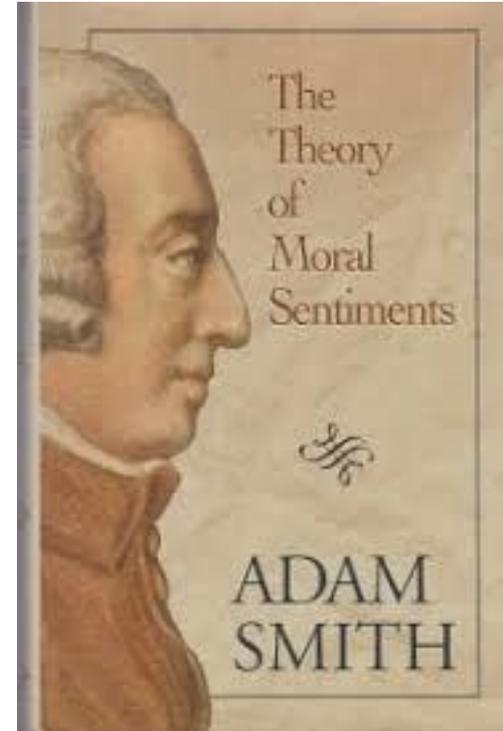
# Social psychology and economics

A. Smith's (1759) book, *The Theory of Moral Sentiments*, is a particularly good example.

Smith presented a complex view of economic agents and included psychological phenomena such as loss aversion, willpower, and fairness.

He argued that behavior (including economic behavior) is determined by a struggle between two processes: passions (basic drives and desires) and the impartial spectator (a self-regulating mechanism that allows individuals to judge their own actions from an objective or moral standpoint).

Thus, Smith presented us with a view of economic agents that gave psychology an important role and, seemed to outline a kind of dual-process perspective of behavior.



# Social psychology and economics

## Implications:

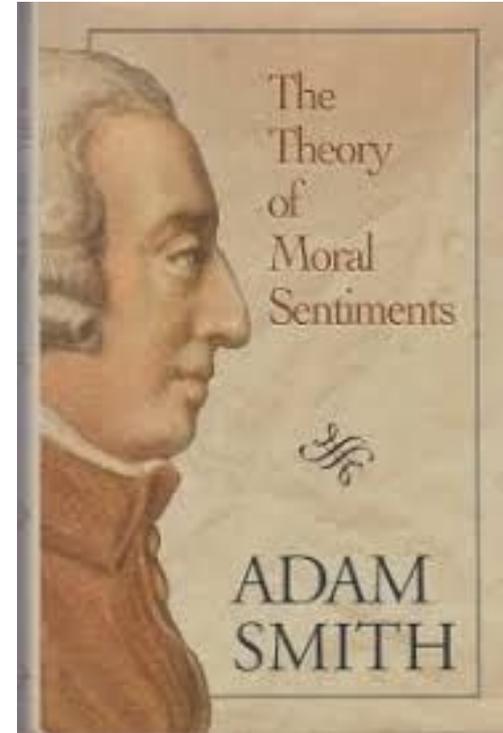
**Rationality is Limited:** Economic decisions are not purely rational; they are shaped by emotions, desires, and moral considerations.

**Moral and Social Constraints:** People do not act solely based on self-interest; they are also influenced by social norms, ethics, and their concern for how others perceive them.

**Behavioral Economics Connection:** This aligns with modern behavioral economics, which challenges the idea that individuals always make rational choices and highlights the role of psychological and social factors in decision-making.

**Adam Smith's Theory of Moral Sentiments:** This concept originates from Adam Smith, who, in *The Theory of Moral Sentiments*, argued that individuals have an innate ability to judge their own actions, often restraining selfish impulses to maintain social harmony.

**Economic behavior is not purely mechanical or self-serving but is deeply embedded in human psychology and social context.**



# Social psychology and economics

During the 1960s and 1970s, it became apparent that rational social interactions might not be possible and that the predictive and explanatory powers of economic theories needed to focus on how individuals actually behave (Thaler, 2000).

To broadly understand economic behavior, then, economic theories needed to incorporate emotions, motivations, and cognitions, and the social nature of most interactions

One example is Simon's (1957) model of **bounded rationality**, which stresses the limited power of self-interest in predicting our decisions.



# Social psychology and economics

Suppose you want to pick the best mobile phone plan that offers the best value for money. However, due to **limited time, information, and cognitive capacity**, you don't compare every single plan available in detail. Instead, you make a decision based on **simplified rules**, such as:

- Choosing the **most popular** plan (social influence).
- Picking a plan from a **well-known brand** rather than analyzing all options.
- Selecting a plan that is **"good enough"** rather than the absolute best (**satisficing** instead of optimizing).

## Why This is Bounded Rationality?

Instead of making a perfectly rational decision (maximizing utility), you settle for a decision that is **reasonable and practical** given your cognitive limitations. **This concept, introduced by Herbert Simon, explains why real-life economic decisions deviate from the perfect rationality assumed in classical economics.**



# Utility and psychology of preference

Think about the ordinal utility theory:

Coffee (utility 20) > Tea (utility 10).

Preferences cause the numbers that are assigned to them, not vice versa. Although it is tempting to claim that coffee was chosen over tea because coffee had a greater utility than tea.

It is because coffee was chosen over tea that we infer that its utility was higher. **The utility did not cause the choice.**



# Utility and psychology of preference

Now consider three choices you find at CP Five Star: chicken nuggets, meatballs and chicken wings. According to the utility theory, how would you rank them? Suppose, wings>meatballs>nuggets (transitivity): wings>meatballs and meatballs>nuggets, so wings>nuggets

Now consider they serve on Sunday: chicken nuggets and meatballs (you pick meatballs as they are tender)

If they serve: meatballs and chicken wings (you pick wings as they are crispy)

If they serve: nuggets and wings (you pick nuggets as they are less spicy)

Does transitivity work? These **preferences are completely intransitive, and it is impossible to assign numbers to the items.**



# Utility and psychology of preference

The crucial insight here is about the relative nature of preferences or judgments. The idea is that people evaluate their situation in comparison to that of others, in comparison to their own past outcomes, or in comparison to goals that have been set. Preference and judgments of good and bad are not made in a vacuum. They need a context. Thibaut and Kelley outlined the concept of a comparison level (CL) in their book.

The comparison level is a hedonic neutral point. It becomes the standard against which outcomes are compared. Positive outcomes fall above the CL and negatively experienced ones fall below. A particular outcome could be either positive or negative depending on the location of the CL.

**Worth, value, goodness, and utility are not inherent qualities associated with an object, action, or relationship, but are derived from the relationship between the attributes of the object and the CL.** The comparison level is related to other relativistic preference concepts like the adaptation level and the level of aspiration.

# Utility and psychology of preference

Imagine two employees, **Alice and Bob**, both earning **\$50,000 per year**.

## Alice's Comparison Level (CL) is High

- Alice previously worked at a company where she earned **\$70,000 per year**.
- Many of her friends earn **\$80,000** in similar roles.
- **Result:** She perceives her current salary as **low** and feels dissatisfied.

## Bob's Comparison Level (CL) is Low

- Bob previously earned **\$40,000 per year**.
- His peers earn around **\$45,000**.
- **Result:** He sees his current salary as **high** and feels satisfied.

**Adaptation Level:** Over time, people adjust their expectations. If Alice stays at \$50,000 for years, she may adapt and feel less dissatisfied.

**Aspirations Level:** If Bob starts aiming for a six-figure salary, his **comparison level** may rise, leading to reduced satisfaction.

Value, worth, and utility are not absolute—they depend on expectations, experiences, and social comparisons.

# Prospect theory of Kahneman and Tversky (1979)

This theory wove three insights about preference into a single story.

First, people experience value as the comparison of an object to some standard, which could be the status quo, for instance. **Economics vs. Psychology:** Traditional economic models assume people only care about **final wealth levels**, but **prospect theory** shows that people evaluate outcomes **relative to their expectations and past states**. People don't assess absolute wealth; instead, they **compare changes in wealth** to a reference point, supporting **prospect theory's** idea that value is based on perceived gains and losses rather than absolute amounts. Imagine **two investors, Alex and Jamie**, who both started with **\$10,000** in investments.

## Alex's Outcome:

- Alex's portfolio grew from **\$10,000 to \$15,000** (+\$5,000 gain).
- **Comparison Standard (Status Quo):** The starting amount (\$10,000).
- **Emotional Reaction:** Alex feels **happy** about the gain.

## Jamie's Outcome:

- Jamie's portfolio was at **\$20,000** but dropped to **\$15,000** (-\$5,000 loss).
- **Comparison Standard (Status Quo):** The previous high of \$20,000.
- **Emotional Reaction:** Jamie feels **disappointed**, even though they still have \$15,000—the same as Alex.

# Prospect theory of Kahneman and Tversky (1979)

This theory wove three insights about preference into a single story.

Second, people are more sensitive to changes that are below the standard than to those above the standard. This is the idea that losses loom larger than gains. Notice that both losses and gains must be specified with regard to some baseline or standard. This notion has been called the differential slope hypothesis. People evaluate outcomes relative to a baseline and feel **more sensitive to losses than equivalent gains**, supporting **prospect theory** and the **differential slope hypothesis**. Imagine a company offering **yearly bonuses** to its employees based on performance: The bonus amount is not judged **absolutely**; employees compare it to **last year's standard (\$5,000)**.

## Employee A (Gain Above the Standard):

- Last year's bonus: **\$5,000**
- This year's bonus: **\$6,000 (+\$1,000 gain)**
- **Reaction:** Employee A is **happy**, but the extra \$1,000 doesn't drastically increase satisfaction.

## Employee B (Loss Below the Standard):

- Last year's bonus: **\$5,000**
- This year's bonus: **\$4,000 (-\$1,000 loss)**
- **Reaction:** Employee B is **much more upset** about losing \$1,000 than Employee A is happy about gaining \$1,000.

# Prospect theory of Kahneman and Tversky (1979)

This theory wove three insights about preference into a single story.

The third notion is called "**decreasing marginal utility**" or "**decreasing sensitivity.**" As wealth (or gains/losses) increases, additional amounts feel **less significant**. People do not perceive gains and losses in a **straight-line** manner—**smaller changes near a reference point feel more impactful** than larger changes far away from it. Imagine you find **money on the street**: The **first \$10** has a much larger impact than gaining **an additional \$10** when you already have \$10,000.

## Finding \$10 vs. \$0 (Small Change Near the Standard)

- If you had **\$0** and suddenly find **\$10**, you feel a **strong emotional boost**.
- The change from **\$0 to \$10** is highly noticeable and meaningful.

## Finding \$10 vs. Having \$10,000 (Large Change, Far from the Standard)

- If you already have **\$10,000** and find **an extra \$10**, the emotional impact is **much smaller**.
- The change from **\$10,000 to \$10,010** is hardly noticeable.

# Preference or utility

***Preferences are more basic than utilities, and they can be studied and understood independently regardless of whether they are irrational or incapable of being fit with a utility function.***



# Motivations in social decision-making

## **How individuals make sense of their social environment:**

What types of information are they looking for?

How much information do people need before making a strategic decision?

How thoroughly does new information that becomes available during interaction get processed and integrated into existing knowledge structures?

Are there any differences between individuals and across situations in how (much) information is processed and worked into a strategic decision?

How does all this influence the nature of the strategic interaction and the quality of the agreements people reach?

# Motivations in social decision-making

Both within economics and social psychology, it has been argued indeed that **any social system, however basic and simple, involves cooperative as well as competitive incentives.**

**Cooperative incentives** steer people toward **collaboration and joint success.**

**Competitive incentives**, in contrast, lead one to strive for **power and personal success.**

Another assumption that is inherently psychological and deviates from traditional models and contemporary thinking in economics is-

**social situations people face and manage are fuzzy, ambiguous, and messy:**

- People do not have a full and accurate insight into the structure of the social situation.
- They lack information about their partner's utility functions in that they do not know what is and what is not important to their partner.
- They do not know the amount of gain or loss their partner faces on specific issues.
- They do not know what goals their partner strives for.
- People have many good reasons to doubt the accuracy and trustworthiness of information about their partner's utility functions.

# Motivations in social decision-making

**The motivated information-processing model** is about strategic choice in those situations where clear-cut anchors and reference points are missing and need to be deduced or inferred by participants. In situations of full information, low uncertainty, or low complexity, the motivated information-processing model is likely to make predictions that deviate little from maximizing expected utility theory.

The motivated information-processing model of negotiation has been developed to provide an explanation of the ways in which people manage incomplete information and uncertainties in mixed-motive interdependence.

Think about the scenario:

Imagine that **Sarah**, a software engineer, has received a job offer from **TechCorp**. However, both Sarah and TechCorp face **uncertainties and incomplete information**:

- **Sarah (Job Candidate)** doesn't know the maximum salary TechCorp is willing to offer or how much they value her specific skills.
- **TechCorp (Employer)** isn't sure if Sarah has other job offers or if she would accept a lower salary.

**Will Sarah take the job? Will TechCorp be able to hire Sarah?**

# Information processing and decision-making

The **motivated information-processing model** assumes that **two basic classes of motivation** are critical in the process.

- The first class is referred to as **social motivation** and broadly distinguishes between **proself** and **prosocial motivation**. **Proself motivation** reflects low other-regarding preferences, whereas **prosocial motivation** reflects high other-regarding preferences. Proself versus prosocial motivation in social decision making determines the types of information people attend to and the cooperativeness of their strategic choices.

<b>Proself motivation</b>	<b>Prosocial motivation</b>
A company aggressively negotiates a contract that maximizes profit for itself without considering the long-term relationship with the supplier.	A company offers fair contract terms that ensure both parties benefit, maintaining a long-term partnership and ethical business practices.
A factory owner ignores environmental regulations to reduce costs and maximize personal profits.	A business invests in sustainable practices even though it's more expensive, knowing it benefits society and future generations.
Someone cuts in line at a grocery store to save time without caring about others waiting.	A person lets someone with fewer items go ahead in the checkout line out of kindness.

# Information processing and decision-making

The **motivated information-processing model** assumes that **two basic classes of motivation** are critical in the process.

- The second class is referred to as **epistemic motivation that refers to a person's desire to seek, process, and understand information and ranges from low to high. Higher epistemic motivation** produces more thorough and systematic search for and processing of information. **Social and epistemic motivation** are assumed to be independent-being prosocial or proself says nothing about one's level of epistemic motivation and vice versa-but they conspire to produce information-processing tendencies and strategic choices.

High epistemic motivation	Low epistemic motivation
Manager conducts <b>in-depth market analysis</b> , gathers customer feedback, and consults experts before making a decision.	A manager quickly decides to launch a new product based on <b>gut feeling</b> and <b>limited data</b> , ignoring market research.
A person reads <b>multiple sources, fact-checks information</b> , and considers different viewpoints before forming an opinion.	A person forms political opinions based on <b>social media headlines</b> without checking sources or facts.
One person actively <b>seeks to understand</b> the other's perspective, asks clarifying questions, and considers multiple solutions before resolving the conflict.	Two colleagues have a disagreement, and one refuses to listen to the other's perspective, assuming they are wrong.

# Information processing and decision-making

Let us rethink about Sarah's decision-making whether to join TechCorp or not:

## How Motivated Information-Processing Plays Out:

1. **Selective Attention** – Sarah may focus on market salaries for her role and ignore company budget constraints. TechCorp may emphasize company policies or industry norms to justify a lower offer.
2. **Strategic Disclosure** – Sarah might hint at having other offers (even if she doesn't) to strengthen her position, while TechCorp may initially offer a lower salary to see if she'll accept.
3. **Perspective-Taking** – If Sarah considers TechCorp's budget and long-term benefits (like stock options), and if TechCorp values Sarah's skills and market alternatives, they may find a **win-win** solution.

Ultimately, the way both parties **process and negotiate information** affects whether Sarah gets a fair salary and whether TechCorp secures a talented employee.

# Dealing With Information

**How can a situation be transformed if the situation is unknown, when individuals lack important insights, and when certain features of the situation are uncertain at best?**

- First,, search for and process information consistent with their goals that is, with their prosocial or proself motivation.
- Second, in searching and processing information, people can choose between **two basic strategies for searching and processing additional, new information.**

**The first strategy (shallow processing/low epistemic motivation)** is to solve logical problems, evaluate persuasive arguments, and form impressions of their counterpart through a quick, effortless, and heuristic processing of information that **rests on well-learned prior associations.**

**The alternative strategy (deep processing/high epistemic motivation)** is to engage in more effortful, deliberate, and systematic processing that **involves rule-based inferences.**

Whether people engage in shallow or deep processing of information depends on their epistemic motivation-that is, their desire to develop and hold accurate and well-informed conclusions about the world. **The higher a person's epistemic motivation, the more likely it is that he or she will engage in deep, deliberate, and effortful processing of information.**

# Information processing and decision-making

Again, Sarah's decision-making whether to join TechCorp or not:

## Analysis of Epistemic Motivation in This Negotiation:

1. **Selective Attention** — If Sarah and TechCorp are only focusing on **certain pieces of information** (e.g., salaries vs. budget constraints) **without deeper analysis**, this suggests **lower epistemic motivation** because they are processing information in a biased way.
2. **Strategic Disclosure** — If Sarah **hints at other offers without verifying facts**, or if TechCorp **lowballs** without considering fair market value, this also indicates **low epistemic motivation**—decisions are made based on tactics rather than thorough reasoning.
3. **Perspective-Taking** — If both Sarah and TechCorp genuinely **seek to understand each other's positions, analyze all available data (market rates, long-term benefits, company finances), and negotiate accordingly**, this would reflect **high epistemic motivation** because they are systematically processing all relevant information.

So, the level of **epistemic motivation depends on how deeply they process the information, rather than just engaging in negotiation tactics.**

# Regulatory fit to create value

Consider the definitions of value.

That amount of some commodity, medium of exchange, and so on, which is considered to be an equivalent for something else. A fair return or equivalent in goods, services, or money. The material or monetary worth of a thing; marketable price.

**This refers to the value of something as its monetary worth or marketable price (operational definition of value)**

The relative status of a thing, or the estimate in which it is held, according to its real or supposed worth, usefulness, or importance; degree of excellence. **This does provide a conceptual definition of value and relates to the concept of utility in economics.**

**In both the psychological and behavioral economic literatures on decision making, the dominant conceptualization of value is in terms of the hedonic experience of pleasure and pain. High motivation works in pleasure and low motivation works in pain. But value derives not only from the experience of pain and pleasure, but also from the experience of strength of engagement.**

Experiencing something as having positive value corresponds to experiencing attraction toward it and experiencing something as having negative value corresponds to experiencing repulsion from it. These two forces indicate the strength of engagement. **Think about a quiet and a noisy library room or a high pay job with work-life balance and a low pay job with poor career growth. What room/job will you choose and how engaging will you be in making a choice?**

# Regulatory fit to create value

**Regulatory fit theory concerns the manner in which a goal is pursued, and it emphasizes value from process rather than value from outcomes.**

**Regulatory fit consists of something that is adaptive by supplying what is needed to carry on and feeling right about something.**

Value from regulatory fit derives from the relation between the manner of goal pursuit and the current self-regulatory orientation of the person pursuing the goal. What matters for value from fit is not whether individuals pursue goal outcomes in a manner that agrees with established rules (value from proper means). Instead **what matters for value from fit is whether individuals' manner of goal pursuit sustains their own current self-regulatory orientation.**

Regulatory fit theory provides evidence that fit is a source of engagement strength that can change the value of a target independent of current or prospective hedonic pleasure/pain experiences.

**Regulatory fit** is a psychological principle that occurs when a person's **motivational orientation** (promotion-focused or prevention-focused) aligns with the way a decision or action is framed. When there is **fit**, people feel more engaged, confident, and satisfied, which enhances the perceived value of their choices or experiences.

# Regulatory fit to create value

Imagine a company is marketing a **fitness program** to two types of customers. What would be the value of such a fitness program to these customers?

## **Promotion-Focused Customer (Aspiring for Gains)**

– This person is motivated by **growth, aspirations, and achieving fitness goals**.

- The company markets the program by emphasizing "**Achieve your dream body!**" and "**Maximize your strength and energy!**"
- This message aligns with their **promotion focus**, creating **regulatory fit**, making the program feel more valuable to them.

## **Prevention-Focused Customer (Avoiding Losses) –**

This person is motivated by **safety, health concerns, and avoiding negative outcomes**.

- The company markets the same program with a message like "**Prevent health risks!**" and "**Avoid injuries and stay fit for life!**"
- This framing aligns with their **prevention focus**, creating **regulatory fit**, making them more likely to engage with and value the program.

When messages match a person's motivational orientation, they feel more **immersed, motivated, and satisfied** with the decision. They perceive the product or experience (fitness program) as **more valuable**, even if the actual offering remains the same.

# Role of moral sentiment in economic decision-making

Explanations of economic behavior often fall into one of two camps: normative and descriptive.

- **Descriptive (objective) statements** claims that attempt to describe the world as it is (using facts and figures, past and present comparison, description and explanation).
- **Normative (subjective) statements** claims that attempt to prescribe how the world should be (recommendations, ethical considerations, cannot be tested).

*Is there any balance between emotions and reasons?*



# Role of moral sentiment in economic decision-making

Smith and other moral philosophers of his era were more interested in the moral (rather than economic) implications of behavior. By contrast, contemporary economists and psychologists are much more concerned with the degree to which descriptive accounts of judgment and decision making are consistent with particular normative standards of sound economic reasoning.

Behaviors that deviate from normative standards of sound reasoning are not only viewed as illogical, they are often met with judgments of moral disapproval that include strong emotional reactions.

**Why are emotions so easily provoked in purely economic decisions? Why do emotions often compel individuals to pursue strategies that do not appear to be in their immediate material self-interest?**

Individuals who acted in a normatively (morally) acceptable manner were believed to be employing a deliberate and conscious process of sound (moral) reasoning, whereas individuals who fell short of rational enlightenment and moral perfection were seen as being influenced by unnecessary and disruptive moral sentiments.

Emotion researchers have found it useful to conceptualize passions and sentiments in terms of their intrapersonal and interpersonal functions.

# Role of moral sentiment in economic decision-making

Intrapersonal functions refer to the impact that emotions have on individual decision making, such as when post-decision regret motivates you to pursue an economic opportunity that you had previously rejected.

Interpersonal functions, in contrast, focus on the impact that emotions have on social decision making, such as when anger motivates you to punish a selfish contributor in a public goods game.

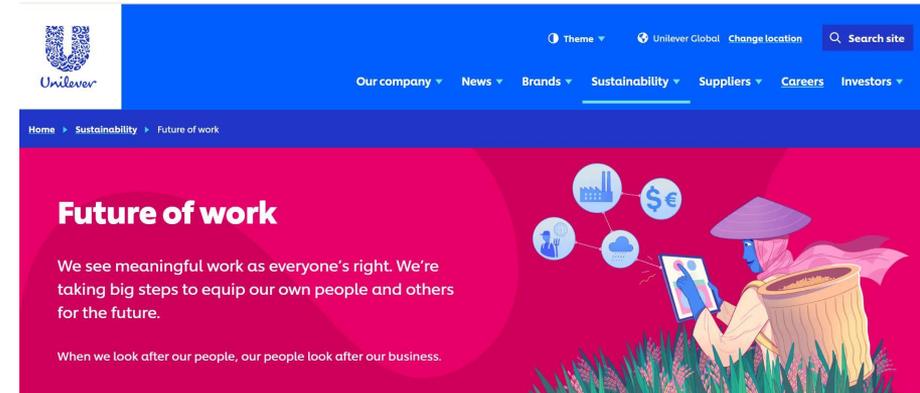
Emotion theorists have identified at least **two important clusters of moral sentiments**:

**(a) self-focused sentiments such as shame, embarrassment, regret, and guilt; and (b) other-focused sentiments such as contempt, anger, disgust, and schadenfreude!** Self-focused emotions emphasize an evaluation of the appropriateness of one's own behavior, whereas other-focused emotions tend to direct one's attention to the appropriateness of others' behavior.

# Role of moral sentiment in economic decision-making

Smith argued that when we experience certain moral sentiments, such as guilt, they intuitively compel us to do what is morally appropriate, despite the fact that rational economic calculation might suggest otherwise. The sentiment of gratitude, for example, can compel an individual to repay an act of kindness even when the cost of repayment exceeds the benefit initially bestowed on the actor (when a friend helps you in your need).

An example of Adam Smith's argument can be seen in **corporate social responsibility (CSR) in business decisions**. This PayPal Giving Fund CSR program takes advantage of the technology PayPal already has to help nonprofit organizations.



# Role of moral sentiment in economic decision-making

Other-focused emotions—contempt, anger, and disgust—that are activated by detecting violations of normative standards.

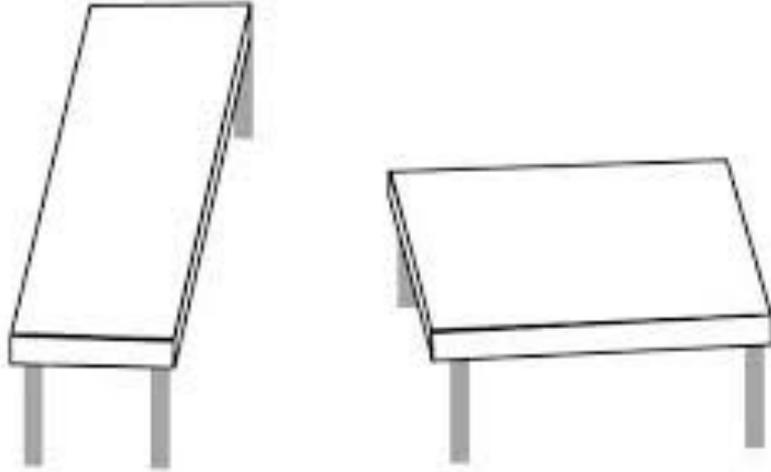
Contempt, has been shown to be associated with violations of normative rules regarding community standards and customs, as when one observes someone failing to carry out his or her duties in the community or social hierarchy.

Anger is associated with violations of normative standards governing one's personal rights, as when one directly experiences another person infringing on his or her personal liberties.

Disgust appears to be triggered by violations of normative standards governing purity and divinity, as when one observes another person disrespecting culturally shared sacred beliefs or religious traditions.



# Biases and blunders

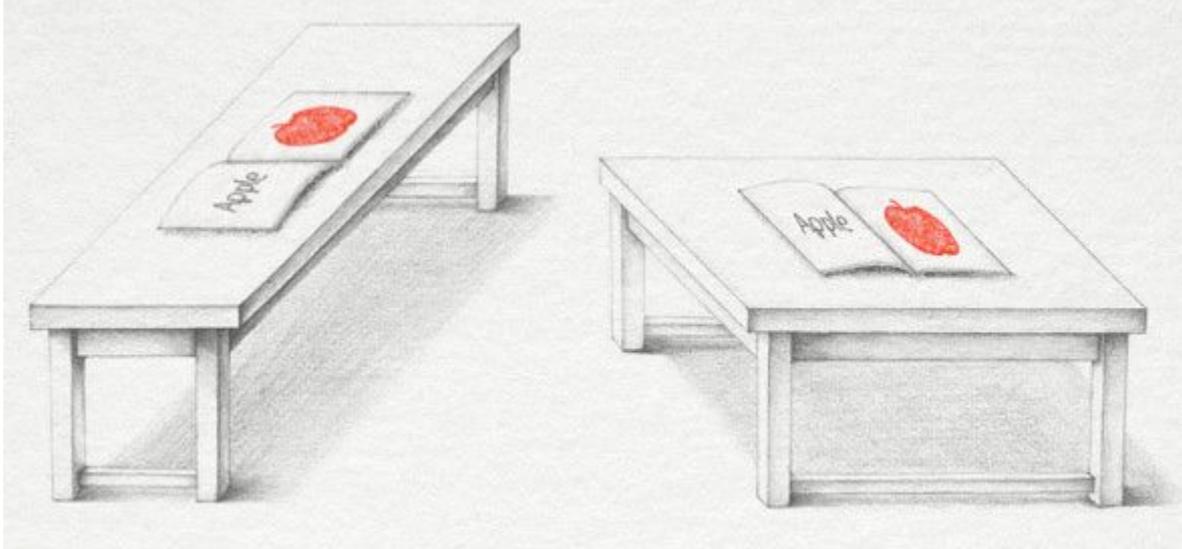


Suppose that you are thinking about which one would work better as a coffee table in your living room.

What would you say are the dimensions of the two tables? Take a guess at the ratio of the length to the width of each.

Do you think that the table on the left is much longer and narrower than the one on the right.

# Biases and blunders



# Biases and blunders

## How do people think?

There are systematic biases in our thinking. Two kinds of thinking, one that is intuitive and automatic, and another that is reflective and rational.

The Automatic System is rapid and is or feels instinctive, and it does not involve what we usually associate with the word thinking. The Reflective System is more deliberate and self-conscious.

Tversky and Kahneman (1974), identified three heuristics, or rules of thumb—anchoring, availability, and representativeness—and the biases that are associated with each.

### Two cognitive systems

<i>Automatic System</i>	<i>Reflective System</i>
Uncontrolled	Controlled
Effortless	Effortful
Associative	Deductive
Fast	Slow
Unconscious	Self-aware
Skilled	Rule-following

# Biases and blunders

## **Anchoring heuristic**

Start with some anchor, the number you know, and adjust in the direction you think is appropriate. The bias occurs because the adjustments are typically insufficient.

*Imagine you're shopping for a car, and the first car you see is priced at \$40,000. Later, you find a second car that's actually a better deal at \$30,000, but because you're anchored to the \$40,000 price from the first car, the \$30,000 price might seem like a bargain. The \$40,000 price served as an anchor, and when you saw the \$30,000 price, you adjusted downwards but didn't make a significant enough adjustment to account for the fact that it could still be overpriced for the type of car you're looking for.*

*The bias occurs because the adjustment from the anchor is typically insufficient, leading to a decision that is influenced more by the initial anchor rather than a fair or rational evaluation of the second car's true value.*

# Biases and blunders

## Availability heuristic

assess the likelihood of risks by asking how readily examples come to mind. When “availability bias” is at work, both private and public decisions may be improved if judgments can be nudged back in the direction of true probabilities, pervasive problems are that easily remembered events may inflate people’s probability judgments.

*Imagine you watch news reports about plane crashes for several weeks, and they’re covered extensively. Later, you’re planning a flight and suddenly feel anxious about it. Even though statistically, flying is much safer than driving, the recent news stories about crashes make plane crashes seem more common or more likely, simply because those events are readily available in your memory.*

*In this case, the availability heuristic is at play because the emotional impact of hearing about plane crashes has made the concept of a crash more “available” or accessible in your mind. As a result, you’re overestimating the risk of flying based on the ease with which such incidents come to mind, rather than on actual risk data.*

# Biases and blunders

## Representativeness heuristic

Judge the likelihood of an event or the characteristics of something based on how similar it is to a typical example or stereotype, rather than on statistical reasoning. Use of the representativeness heuristic can cause serious misperceptions of patterns in everyday life.

*Suppose you're told that someone is a high school teacher who loves to give detailed, structured lectures and frequently talks about the importance of following rules. You might quickly assume that this person is strict, authoritative, and methodical. However, the person could actually be a drama teacher who teaches through a lot of improvisation and creative activities, but the characteristics of being structured and rule-oriented led you to associate them with a more stereotypical subject like mathematics or history.*

*In this case, you relied on the representative heuristic by assuming that the person's personality traits and behaviors (structured, rule-oriented) fit your stereotype of a high school teacher, even though those traits don't necessarily fit every subject area equally. Your judgment was based more on what seemed representative of a "teacher" rather than considering the variety of teaching styles that exist across different subjects.*

# Choice architecture

**Choice architecture** refers to the design of environments in which people make decisions, specifically how the way choices are presented can influence decision-making. It involves structuring options in a way that encourages people to make certain choices, without restricting their freedom to choose. The idea is based on behavioral science, which suggests that the way choices are framed, organized, or made more accessible can nudge people toward more beneficial or desired behaviors.

If you indirectly influence the choices other people make, you are a choice architect. And since the choices you are influencing are going to be made by Humans, you will want your architecture to reflect a good understanding of how humans behave.

Basic principles of good (and bad) choice architecture:

- Defaults: Padding the Path of Least Resistance
- Expect Error: well-designed system expects its users to err and is as forgiving as possible
- Give Feedback: Well-designed systems tell people when they are doing well and when they are making mistakes
- Understanding “Mappings”: From Choice to Welfare: map and hence select options that will make them better off.
- Structure Complex Choices: adopt different strategies for making choices depending on the size and complexity of the available options
- Incentives

