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THE ECONOMIC BEHAVIOR THEORY -THE NUDGE  
THEORY : AN APPRAISAL

Dr Suhasini Parashar

Associate Professor, Dept of Business Administration,  
Maharaja Surajmal Institute, Janakpuri, New Delhi

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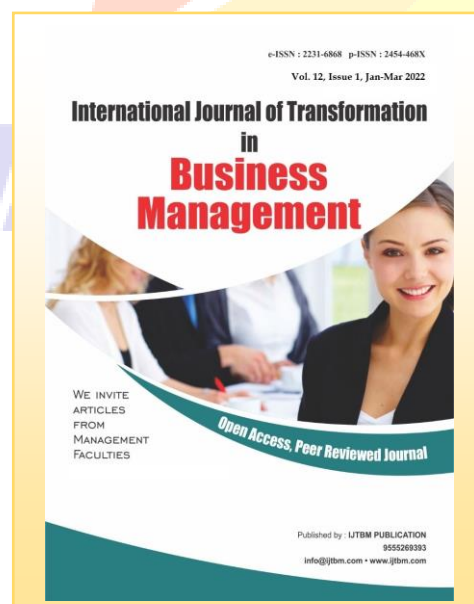
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### ABSTRACT

The behavioral economics is making a significant impact on economic theory and economic policy. Behavioral economics with intuitive appeal, seeks to work with human limitations. Nudge theory becomes an important aspect to study about behavioral economics, political theory and behavioral sciences, as ways to influence the behavior and decision-making of groups or individuals. Nudge theory explains consumer behavior can be influenced by small suggestions and positive views. Nudges decrease low market performance, save the Government money, encourage the actions and help to increase the efficiency of resource use and their effect. Nudge helps to choose an option socially desirable beneficial for better public healthcare, civic sense and social harmony. Humans being need encouragement or intervention as nudge to do what is best for the country or society at large .

Key Words : Behavior, Nudge, Public, Rational

### INTRODUCTION

#### BEHAVIOUR ECONOMICS

The Nudge Theory,

- (1) A way to influence the behavior and decision making of groups or individuals through education, legislation or enforcement.
- (2) Influence British and American politicians and around the world at the national level (UK, Germany, Japan) as well as at the international level, World Bank, UN, and the European Commission.
- (3) A nudge is any aspect of change people's behavior in such way, significantly changing their economic incentives. The examples of a nudge are the etching of the image of a housefly effect the behavior of people.

An individual makes a particular choice or behave in such a way by changing the environment thus cognitive process effect to favor the desired outcome. Humans are not fully rational beings and people often do something that is not in their own self-interest, even when they are aware about their best interest. When hungry, people who diet often underestimate their ability to lose weight, and their intentions to eat healthy becomes weakened for some time and by then get satisfied.

- (4) Public policy as Nudge at work includes automatic enrolment of employees into pension schemes in the UK and opt-out system for organ donation in Spain. These nudges have

helped improve public participation in these programmes.

## ORIGIN

- (a) The term nudge and associated principles was developed by James Wilk before 1995 and described by Brunel University academic D. J. Stewart as the art of the nudge (as micro nudges). The nudge becomes a micro targeted design effect specific group of people.
- (b) Thales's and Cass Sunstein's 2008 book—Nudge: Improving Decisions about Health, Wealth and Happiness, a wide impact with Governments for setting up nudge units in their countries. Richard Thaler bagging year's Economics Nobel for his work on behavioral economics highlight this theory highlight behavioral trait and Effect on cleanliness at sensitive areas like Airport, Hospitals.

Nobel Laureate Daniel Kanheman describes two distinct systems for processing information as to why people sometimes act against their own self-interest:

- (a) **System 1**, is fast, automatic, and highly susceptible to environmental influences and processing takes over decision-making which relies on judgmental

heuristics to make decisions, resulting in faster decisions and individual's explicit values and goals. The habitual behavior is resistant to change without a disruption to the environmental situation that triggers that behavior.

- (b) System 2, processing is slow, reflective and takes into account explicit goals and intentions.

## TYPES OF NUDGES

- (1) Nudges are small changes in the environment, easy and inexpensive to implement.
- (2) A default option is the option; an individual automatically receives when they do nothing. People choose a particular option if it is the default option.
- (3) A social-proof heuristic is tendency for individuals to look at the behavior of other people. The success in using social-proof heuristics to nudge individuals to make healthier food choices for better health.
- (4) When an individual attention is drawn towards a particular option, the option will become more salient to the individual and choose the option. A snack shops at train stations where consumers purchased more fruit and healthy snacks and the effect on the

consumption behavior of the customers.

**NUDGE THEORY BECOMES A FLEXIBLE AND MODERN CONCEPT FOR:**

- (a) Understanding, how people think,
- (b) Make decisions and behave,
- (c) Helping other people,
- (d) Improve their thinking and decisions,
- (d) Managing the changes,
- (e) Identifying and modifying existing less favorable influences on people.

**Importance**

- (a) The Nudge Theory is applicable in public policy and influencing citizen behavior, healthcare, personal finance and investment planning. A nudge, tax breaks under Section 80C, to encourage people to invest in financial instruments such as the Public Provident Fund and Equity-linked savings schemes, in place of Gold or Property. Insurers use the nudge of lower premiums on life covers to encourage customers to keep away from smoking or any habit effect the health.
- (b) The Nudge Theory can be used to drive favorable behavior and avoid

unfavorable ones. Supreme Court ban on sale of firecrackers in Diwali season avoided and people been nudged well in advance for adverse effect on air quality and public health due to use of firecracker.

- (c) The Government Swachh Bharat drive also benefits people into understanding the ill-effects of unclean surroundings and environment up gradation by planting and green environment.
- (d) Sub –optimal choices are due to inertia , lack of knowledge, or poor incentives lead the person to select sub-optimal choices. Nudge helps us choose an option that is also socially desirable and for better public healthcare, civic sense and social harmony.
- (e) A nudge an idea of using encouragement or suggestions, to change people behavior and giving them freedom to make their own good decisions, instead of using laws, rules, or taxes.

**Government Applications of Nudge theory**

- (i) U.K. Prime Minister David Cameron and U.S. President Barack Obama during their terms, implement nudge theory to advance domestic policy goals in their respective countries. In 2008, the United States appointed Cass Sunstein,

- helping to develop the theory, as administrator of the office of information and Regulatory Affairs. In 2010, the British Behavioral Insight Team, or Nudge Unit, was established at the British Cabinet Office and headed by Psychologist David Haplern.
- (ii) In Australia, the state Government of New South Wales established a Nudge Unit of its own in 2012. In 2016, the Federal Government followed suit, forming the Behavioral Economics Team of Australia (BETA) as the central unit for applying behavioral insights to public policy.
- (iii) In 2020, the British Government of Boris Johnson decided to rely on nudge theory to fight the coronavirus pandemic, with Chief Scientific Advisor Patrick Vallance seeking to encourage herd immunity with this strategy.
- (iv) Nudge theory has also been applied to business management and to develop corporate culture.
- (v) Nudge is applied for health, safety and environment (HSE) with the primary goals of achieving a zero accident culture and used as a key component in human resources software.
- (vi) The forerunners in the application of nudge theory in corporate settings are top Silicon Valley companies. These companies are using nudges in various forms to increase productivity and happiness of employees and more companies are gaining interest in using what is called nudge management to improve the productivity of their white collar workers.
- (vii) Nudge theory used to help health care professional. Nudging is also used as a way to improve hand hygiene among healthcare workers to decrease the number of healthcare-associated infections. It has also been used as a way to make fluid administration a more thought-out decision in Intensive Care Units (ICU), with the intention of reducing well known complications of fluid overload.
- (viii) Nudge theory applied to fundraising and helping to increase donor contributions.

### Strategies

There are some simple strategies used when applying nudge theory to this area.

- (i) To make donation easy, creating default settings that automatically enroll a donor for continuous giving or prompts them to give every so often

encourages individuals to continue giving.

- (ii) To increase donors and increasing a person motivation to give through rewards, personalized messages or focusing on their interests, thank-you gifts and demonstrating the impact of donation has on others and become more effective when increasing donations.
- (iii) By social influence, increasing the donors and people also influenced by group norms. By allowing donors to become visible to the public and increasing their identity. Using the peer effects show the increase in donations.
- (iv) There is specific time, when individuals become more likely to give, as during holidays.
- (v) To increase donations and donors, the ethics of using such techniques on the population for increasing the welfare.

#### Artificial Intelligence (AI) and Algorithmic Nudging (AN)

- (a) Nudges are used at many levels in Artificial Intelligence and algorithms nudging as recommender systems.
- (b) Companies increasingly use algorithms to manage and control the individuals, not by force but by nudging their behavior, learning from their

personalized data and altering their choices in a way.

- (c) As recent advances in Artificial Intelligence and machine learning, algorithmic nudging is much more powerful than its non-algorithmic counterpart. Companies can now develop personalized strategies for changing individuals' decisions and behaviors at large scale, data about workers behavioral patterns at their fingertips, these algorithms are adjusted in real-time making the approach even more effective.

1. Effect on People's Behavior by observing others, copying and, encourages to do things.
2. Effect on Habits of people does things consciously and without consciously thinking.
3. People motivated to do the right thing, to join the friends on dinner.
4. Peoples' self expectation and actions with their values and commitments.
5. People, when making decision take under consideration recent events and probability.
6. Peoples when, giving incentives and information, involved and effective to make decision.

**CRITICISMS OF BEHAVIORAL ECONOMICS**

- (i) The use of small nudges is not as effective as more traditional policies, including raising taxes to deter unwanted behavior. Critics of behavioral economics offer arguments against the application of behavior economics to public policy.
- (ii) Behavioral economics challenged by suggesting the small nudges are better than large scale interventionist measures and provide more effective types of behavior change. As higher fuel taxes yield a better result than small nudges towards better environmental decisions and impact of nudge-type policy is short term, and does not lead for long lasting changes in behavior.
- (iv) Small nudges work well under controlled conditions, but become a subject of much more interference as tried in live situations. It is possible that the effect of subtle nudging is small and Governments have to spend much more money implementing such policies in comparison with traditional policies.

**BEHAVIORAL ECONOMICS AND BENEFITS**

- (i) Many employees fail to exercise in spite of the well-known benefits of doing so. Employees skip medications that could prevent serious illness and improve their quality of life. Behavioral economics help to know the cause and effect.
- (ii) Behavioral economists rely on psychology to explain human behavior.
- (iii) This is important in explaining, why it is so difficult to encourage healthy lifestyles. There is immediate loss when people switch their habits to eating less or exercising more. Junk food tastes good and exercise is hard.
- (iv) The wellness programs, employers offer has not produced the best results due to habits effect the health. As promise of charging lower medical premiums, if employees quit smoking (a future gain) and charging higher premiums to employees if they donot quit (a future pain). The principle of loss aversion employers might be better off providing upfront rewards such as immediately charging lower medical premiums to people who commit to quit smoking.

- (v) The use of telemedicine tools for monitoring patient behavior and encourage compliance with prescribed treatment. Patients who take their medication are eligible to win daily cash prizes. This practice recognizes the importance of immediate rewards in long time.
- (vi) They can be nudged to make decisions that are good for them. At a cafeteria, the first thing in the line is the salad bar. That is a good thing, it is healthy. If cheese and French fries were placed at the beginning of the line, people might load up on them and not take any salad.
- (vii) Employees are being asked to become more involved in their own healthcare. Behavioral economics can offer insights into employee behavior which can be useful for Benefits professionals in designing benefit communications.
- (viii) Marketing as to nudge customers towards specific brand or product decisions as supermarket puts certain brands or products on shelves at eye level or on the lower shelves. Customers are nudged to take the ones on eye level and technique as good for the company for selling the products.
- (ix) Behavioral economics with intuitive appeal, seeks to work with human

limitations instead of fighting against them.

### **BEHAVIORAL ECONOMICS TO BUSINESS ADVANTAGE**

- (a) To Understanding Micro-Behavior--*People make food decisions and providing decision-making information which facilitates healthy eating behavior.*
- (b) To Not Overwhelm Consumers with Choice--*Behavioral economics make the irrationality of consumer behavior, more predictable. Reducing the number of options makes people likelier not only to reach a decision but also to feel more satisfied with their choice.*
- (c) To Build Better Business Insights--*The core idea of behavioral economics is to form a better understanding of how people think and act and customers interact with products.*

### **Analysis**

- (i) Nudge principles and techniques are now increasingly significant in communications, marketing and the motivation of groups. In business selling, organizational leadership, politics, economics, education, welfare, in any situation, where it influences a person or a group of people. A



customer group, or an entire society - or simply to improve personal health, wealth and well-being.

**(ii) Nudge theory help parenting of a child, or at the other extreme help world Government to manage a global population.**

(iii) Nudge theory accepts, people with certain attitudes, knowledge, capabilities and allows for these factors. It is based on understanding and allowing for the reality of situations and human tendencies.

(iv) Nudge theory encourage positive helpful decisions for the people choosing, and ideally for the wider interests of masses.

(v) Nudging refers to the process of influencing behavior through small changes in information.

(vi) The nudge theory proposes that indirect techniques and successfully influence behavior instead of direct instructions. (i)When one buys a burger and to purchase fries and soft drinks also, (ii)When there is an additional cost for plastic bags at stores, less likely to purchase one, so reducing plastic consumption, (iii)Schools often hang posters or pictures of inspirational

leaders and their quotes to encourage students to think in a particular way.

(vii) Healthy nudges now applied in any aspect of lives—Educational institutes, Government policies or Workplace Environments. Many organizations realize the growing importance and relationship between happier employees and improved productivity. Employee behavior can be improved through nudge theory.

(a) To decrease the meeting time as it is no secret that in meetings, plenty of time is spent on sharing information .Managers solve this challenge by reducing the time allocated for the meetings.

(b) Working at work -Organizations prioritizes employee well-being. An effective way is designing the office so healthier options are dominant. Several offices have staircases placed in prominent locations; elevators are hardly visible. It is to encourage individuals to take the stairs and practice healthy lifestyle choices.

(c) No wastage: To develop healthy habits, organizations reduced the number of waste bins available on every floor. Fewer waste bins across the corners of the office will discourage employees from

generating more waste, printouts and papers.

(d) Theory helps employees to realize the importance of addressing a challenge and encourages them to choose a solution. It is highly effective for change managing and employees are more likely to embrace change when they have the power of choice.

### Steps

- (i) The first step is to define the change, needed and employees view about it.
- (ii) Analysis stakeholder and study the change, affect everyone involved. And directed to improve the strategy if required.
- (iii) In management, only effective and supported by a rational plan. Identify the resources needed including the time to make and adjust according the changes.
- (iv) Through feedback to know the employee's happiness.
- (v) Stay focused on goal and prepared for bottlenecks while changes take place.

- (vi) Study situation and take decision.

### Conclusion

The behavioral economics has regenerated interest in economics and public policy. Nudge was initially developed as an ethical concept, by academics for the improvement of society, not as a mechanism for commercial exploitation, or Government manipulation. Nudge theory initially emerged in the early 2000s USA as a radical approach to influencing people interaction with financial system, notably pensions, savings and healthcare for improving quality of life in Old age. Nudging techniques aim to use judgmental heuristic to the advantage of the party that is creating the set of choices when situations are complex or not favorable for an individual cognitive capacity, or when an individual is faced with time-constraints or other pressures. [Extends the appreciation and application of Nudge methodology](#) to broader change-management, motivation, leadership, coaching, counseling, parenting, etc.

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