

Issues with digital choice architecture can lead to more inefficient competition

Matias Mäkiranta, supervised by Dr. Lorenzo Lotti

Laidlaw Research and Leadership Programme



Polar bear effect: Would you donate more money to environmental causes if you were first shown a picture of a polar bear? This is one of the questions we attempted to answer with behavioural experiments.

Introduction

The internet has been appraised by economists for reducing search costs and increasing market efficiency. This poster argues that economists should adopt a more critical view of digital markets because only a small part of the internet is easily accessible to consumers through search engines and this information is easy to be presented suggestively.

Theory

Electronic marketplaces have been appraised for reducing search costs. (Petersen et al., 2002; Bakos, 1997; Goldfarb & Tucker, 2019)

According to economic theory reduced search costs leads to more efficient competition, which increases the equilibrium real wage and decreases unemployment.

Digital nudges & sludges

Digital nudge is a way of presenting information so that it alters people's decisions in a predictable way. Digital nudges are used for better decision making, whereas nudging for evil causes is defined as sludge. (Thaler, 2018)

Which option is the decoy option?

A) Pay \$10 – Get an ebook

B) Pay \$20 – Get a hardback of the book

C) Pay \$20 – Get a hardback of the book and an ebook

(Answer below)

Example applications

- Hotel booking website tells you that ten people are looking at the same room as you (social proof effect)
- Streaming service attempts to hook you into watching multiple episodes by automatically starting the next one (cognitive ease)
- An online book store tells you that only 5 copies are left available (scarcity effect)

About the decoy effect: The correct answer is B. This decoy option is not an actual option, it is just designed to increase sales. Before this decoy was deployed, only 31% of the test subjects were ready to pay \$20 to buy both the hardback and the ebook. After the decoy was deployed, 68% were willing to pay \$20 and buy both the hardback and the ebook. (Schneider et al., 2018)

Methods

We developed two digital nudges, which could encourage people to offset their climate impact in online environments, for example in online stores. Behavioural experiments were conducted to test the effect of these nudges. In 4 different tests we examined the effects of defaults and nudging by presentation. Participants for the test were recruited through Amazon Mturk and the experiments took place in online environments.

Test 1 Treatment group

Your car consumes 10 liters of E85 ethanol for 100 kilometers. You drive 1000 kilometers. Would you be willing to offset the climate impact of this drive by paying 6,00€?

Yes No

Test 1 Control group

Your car consumes 10 liters of E85 ethanol for 100 kilometers. You drive 1000 kilometers. Would you be willing to offset the climate impact of this drive by paying 6,00€?

Please Select...

Further research

- How to create more nudges, which will encourage people to act in a more sustainable way?
- Are there more sludges or nudges in online environments?
- Does digitalization lead to a “winner-takes-all” kind of competition?

Contact

Matias Mäkiranta

Matias.makiranta.20@ucl.ac.uk

Always interested to learn more, especially about behavioural economics, carbon pricing and inequality.