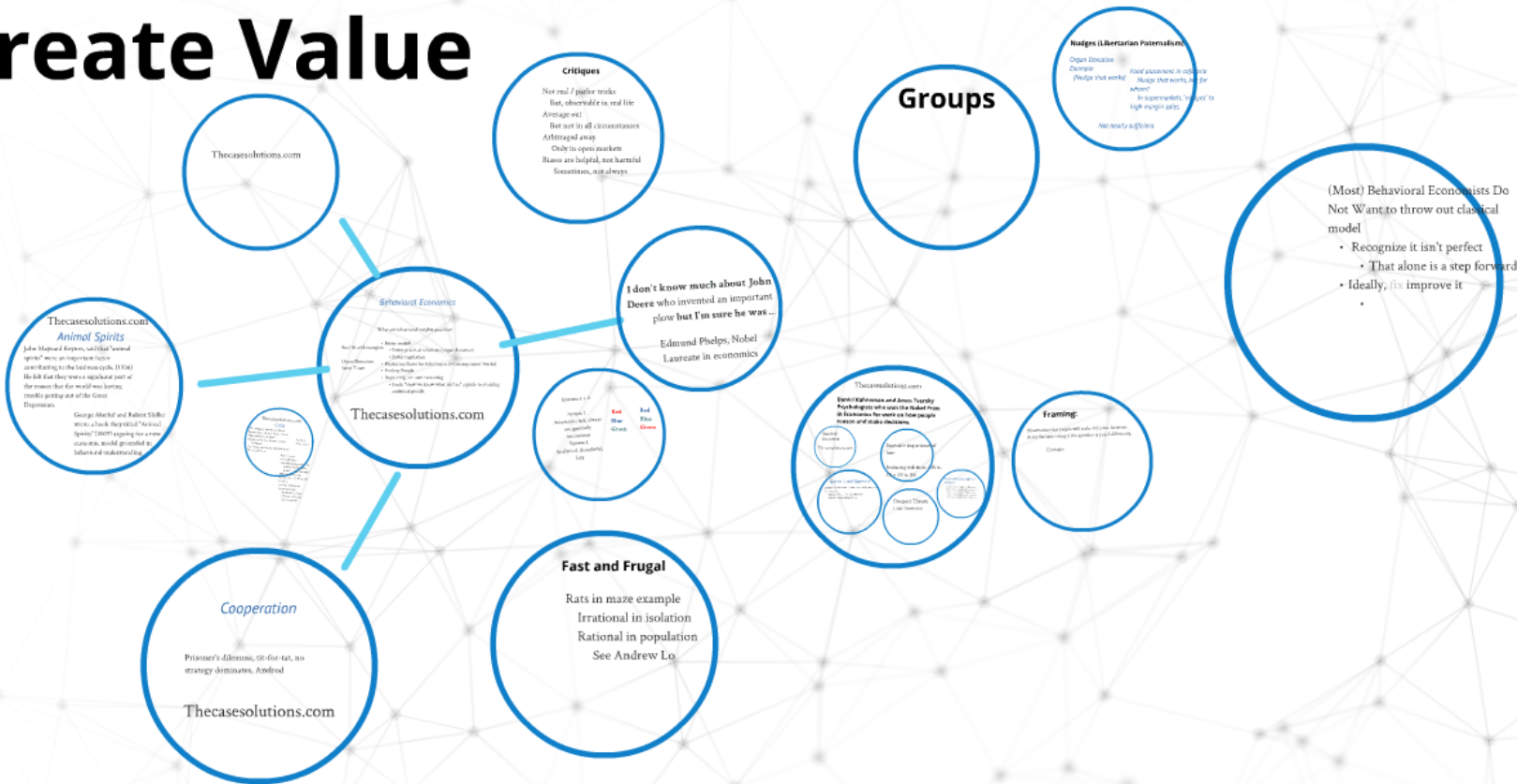




# The Last Mile: Using Behavioural Insights to Create Value



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## *Animal Spirits*

John Maynard Keynes, said that "animal spirits" were an important factor contributing to the business cycle. (1936)  
He felt that they were a significant part of the reason that the world was having trouble getting out of the Great Depression.

George Akerlof and Robert Shiller wrote a book they titled "Animal Spirits" (2009) arguing for a new economic model grounded in behavioral understanding.



# *Cooperation*

Prisoner's dilemma, tit-for-tat, no  
strategy dominates, Axelrod

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# Behavioral Economics

What are behavioral insights good for?

- Real World examples:
- Better models
  - Better practical solutions (organ donation)
  - Better regulation
- Organ Donation  
Swiss Town
- Marketing (basis for believing active management works)
  - Fooling People
  - Improving our own reasoning
    - Book: "How we know what isn't so" a guide to avoiding analytical pitfalls

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isis

dback  
centives

perfect

Affairs (or

Bad Forecasts  
Overconfidence

Self-reinforcing phenomena  
Beliefs, actions (rising  
prices => more leverage)

See Penn  
Presentation

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## *Crisis*

CDO ratings, reinforcing feedback

Ratings: Bad models or bad incentives

Principal / Agent problems

Forgetting that models aren't perfect

Willfully?

Greenspan: shocked, Foreign Affairs (or

FT or Daily Show

See Penn

Presentation

Bad Forecasts

Overconfidence

Self-reinforcing phenomena

Beliefs, actions (rising  
prices => more leverage)

BEleif in law of small

numbers (n = all. WYSIATI





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**Daniel Kahneman and Amos Tversky  
Psychologists who won the Nobel Prize  
in Economics for work on how people  
reason and make decisions.**

Hyperbolic  
discounting

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Excessive importance of  
zero

Reducing risk from 10% to  
3% v 3% to 0%

*System 1 and System 2*

Kahneman's shorthand for two characteristic ways our  
brain works:

- System 1: fast, automatic, always on
- System 2: slow, analytical, lazy

*Right Answer to a different  
question*

Kahneman's observation that when we are  
trying to answer a hard question, we often  
answer a different one that we know the  
answer to. For example, confusing a good  
company with a good stock (e.g. Twitter)

Prospect Theory  
Loss Aversion





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