



Research impact

Bringing the real world to policy decisions

The Centre for Decision Research and Experimental Economics (CeDEx) has helped government departments to devise and implement policies that better reflect the complexity and nuances of real-world behaviour.

The global financial crisis offered a dramatic illustration of why assumptions of rationality can sometimes prove misplaced. The meltdown prompted a major rethink of the belief that consumers and markets alike are slaves to machine-like logic.

“Most of the models that underpin policy are founded on the supposition that we’re perfectly rational, but we’re obviously not,” says Chris Starmer, a Professor of Experimental Economics and the Director of CeDEx. “At the other end of the spectrum is a more psychological view that allows for individuals to make shortsighted, impulsive, irrational and often incoherent decisions. Both schools of thought capture elements of the truth, but the trick is to bring them together to develop useable models based on well-established principles.”

CeDEx has devised and delivered training workshops specifically designed to convey the importance of this balance to government departments, many of which

have trialled more “experimental” approaches as a result. Her Majesty’s Revenue and Customs, for example, has successfully used such methods to assess the effect of message framing in promoting tax recovery.

The Department for Environment, Food and Rural Affairs has also drawn on CeDEx’s expertise. Research into the factors that influence purchase decisions has informed policy on how energy-saving products are offered to consumers.

“It’s important that policymakers understand how human motivations and decision processes affect people’s behaviour, whether individually or in group settings,” says Professor Starmer, “because these are key factors in how we respond to regulation, incentives, information, ‘nudges’ and other policy tools. In the end everyone benefits if the sort of high-level policy decisions that affect all our lives are more firmly rooted in reality.”

In 2011 Ofwat, the UK’s water services regulatory authority, published a report on sustainable water use. It drew directly on ideas discussed with CeDEx researchers, particularly the impact of framing incentives as penalties rather than positive inducements. Officials praised CeDEx for highlighting “the role of behavioural economics in encouraging consumers to use water wisely”.



Chris Starmer

Professor of Experimental Economics

“Technically speaking, conventional economic models assume that individual agents, in their various roles as consumers, firms, governments and so on, are utility maximisers who respond optimally to their environment. Or, to put it bluntly, they assume we’re all perfect – which, of course, we’re not. My research uses insights from psychology and the observation of actual behaviour to develop more accurate predictions of how real people behave in all manner of decisions affecting their health, wealth and happiness. This can help us understand many surprising phenomena, from why taxi drivers work less on high-wage days to why our financial system turned out to be rather less stable than we expected.”

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World-leading research

The research carried out at the School of Economics is regularly acknowledged as among the most significant of its kind in the world. It is also among the most influential.

Research can help boost economic competitiveness, improve the effectiveness of public services and policy and enhance quality of life. We have made important contributions in all of these areas through the work of our research centres.

- Centre for Decision Research and Experimental Economics
- Centre for Finance, Credit and Macroeconomics
- Centre for Research in Economic Development and International Trade
- Nottingham Centre for Research on Globalisation and Economic Policy
- Granger Centre for Time Series Econometrics
- Network for Integrated Behavioural Science
- Nottingham Interdisciplinary Centre for Economic and Political Research