

PART 1

An expanded understanding
of human behavior for
economic development:
A conceptual framework

Introduction

This first part of this Report presents a framework for understanding and using recent findings on human decision making. The three chapters in part 1 develop the three elements of the framework:

1. *Thinking automatically.* Much of our thinking is automatic, not deliberative. It is based on what effortlessly comes to mind. In contrast to standard assumptions that we perform complex calculations and consider all possible routes of action, humans reach for simple solutions and use mental shortcuts much of the time. Thus minor situational changes can have a large impact on behavior and, ultimately, on the achievement of development goals. Simplifying the choice environment can help people make choices and enact behaviors that benefit them.
2. *Thinking socially.* Humans are not autonomous thinkers or decision makers but deeply social animals. We have innate preferences for altruism, cooperation, and reciprocity, and we are strongly affected by the social norms and networks in our communities. We often want to meet others' expectations of us, and we act on the basis of shared identities. Recognizing the importance of social preferences and norms in decision making can help policy makers improve program efficacy and develop new tools for achieving development objectives.
3. *Thinking with mental models.* Individuals do not respond to objective experience but to mental

representations of experience constructed from culturally available mental models. People have access to multiple and often conflicting mental models, and which one they invoke to make a choice depends on the context. Human decision making, therefore, is powerfully shaped by both contextual cues and the past experiences of individuals and societies. Showing people new ways of thinking can expand the set of mental models they draw on and their capacity to aspire and can thus increase social welfare.

These three elements of the framework are of first-order importance for development policy, poverty alleviation, and the policy design process itself. These elements have two important implications:

- “Economic man” is a fiction, not a reality. Policies that assume that rational decision making will always prevail can go astray in many contexts and may miss opportunities for low-cost, high-efficacy interventions. Updating the standard assumptions about human decision making is essential to pushing forward the frontier of development policy making.
- The interplay of institutions and individuals is more complex than is often recognized; yet the potential for temporary interventions and changes in institutions to alter long-standing patterns is greater than has been recognized.