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## **ARCHITECTURE OF CHOICE – ADVICES OF BEHAVIOURAL ECONOMICS THE NEW BOOK BY PROFESSOR DIMITAR KANEV**

A book review by Venelin Terziev

Dimitar Kanev is Ph.D in economics. He is one of the most renowned Bulgarian scientists, whose major interests are connected with the general economic theory, behavioural theory, economics and management of education and economics of labour. He is professor at Nikola Vaptsarov Higher Naval School in Varna and at Chernorizets Hrabar Varna Free University.

This book is inspired by the traditional scientific works of Prof. Dimitar Kanev. Here he seeks explanations from various science aspects, where he expresses his attitude and grounds specifically and clearly his particular position. This achievement would not have been possible without his daily and scientific experience; it could not only result in scientific research, without a basis in real life. Far from philosophical rations that inevitably come to each reader, we have to note and pay special attention to the human behaviour interpretation in particular situations.

The goal of the present work is to help the reader understand human behaviour and human choices in more details, the way we think and what the system deformations in our thinking are, to get to know and avoid behavioural mistakes and delusions in the self decisions and actions; to improve self-control and consistency between intentions and actions; to identify somebody else's influences on oneself and to prevent from the ones that are not of self-interest; to take ethically advantage of the decisions and actions of the others and to help them in achieving their own goals; to comprehend what state policy of intervention in the individual decisions is most appropriate for maximizing individual wealth and achieving public goals. This, beyond any doubt, would improve personal life and professional relations as well as the possibilities for career progress, as well as the way one views the environment and the people in general. All that would help us in establishing a better world.

In order to achieve that goal, the author analyses human behaviour and actions, enriching the view of the social sciences' "queen" – economics, by upgrading the understanding about the "economical person" (homo economicus), who, by definition is rational and possesses unlimited possibilities to acquire and process necessary information, learns from his mistakes and thus is never systematically wrong and reacts an expected way to the incentives created by market and public institutions, is ego-centric and has the will to realize his aims. Here he leans on the achievements of all behavioural sciences and will put in the limelight not the idealized picture of



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the “economical person” (homo economicus), but the “normal person”(homo sapiens), who is limited within his egoism, rationality and will.

The work is divided structurally into five chapters.

The first chapter lays the foundation of the further analysis. Here, human decisions are presented as product of two mental systems – automatic and rational. It reveals the characteristics and tasks of each system and assesses how effectively they manage the problems, why they fail and why their failures cannot be easily prevented. It also presents the main possibilities for influencing both systems – the paternal approach, the libertarian conception and the compromise between them – the “libertarian paternalism” and the connected tools for “jogging” towards the “correct” behaviour and decisions through appropriate “architecture” of the environment of choice.

The second chapter observes the deformations in the assessment of the probability for the occurrence of various outcomes that are connected with the heuristic way we take decisions in the conditions of cognitive limitations, uncertainty and time deficit. Heuristics are irreplaceable in achieving the quested satisfying sufficiency of decisions and have significant advantages compared to the analytical and statistical methods. However, they may lead to systematic mistakes in the probabilities assessment. The emphasis in this chapter is on the deformations caused by the heuristics of representativeness and accessibility, anchoring, over-optimism, over-confidence, the heuristics of known, conservatism, the tendency for confirming, egoistic distortion etc.

The third chapter studies the deformations connected with the assessments of decision’s benefits and losses. They lead to distorted assessments about the actions’ consequences.

Among the examples is the exceptive sensibility towards the losses, the tendency for status quo maintenance, not recognizing the sunk and the alternative expenses, the effect of possessing, the putting of frames, the mental reckonings, reading the relative instead the absolute assessments. This chapter presents also the basic theoretical model of behavioural economics that explains choice – theory of perspectives. It also gives examples for its application.

The fourth chapter examines the limited egoism and focuses on the social preferences’ influence and the understanding for justice, the social relations (family, friends, colleagues, community) and the social norms (social and moral values). It studies in more details the social environment factors influence upon the choices and the consecutive irrational behaviour. Illustration of these is the gregarious behaviour, the effects of environment and the relative position, the commitment and consistency, inequality avoidance, the reciprocity, the quest for social proofs, conflicts avoidance, etc. The possibilities of inner and outer motivation are also presented. Each one of them in what cases has priority is also cleared and what is the interrelation



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between market and social stimuli.

In the fifth chapter attention is drawn to the deformations of assessments regarding how present day decisions influence the future. These deformations lead to excessive emphasis upon the present, mistakes in the prognosis of future preferences and present day decision's consequences, limited will and self-control defects. The main problem here is underestimating the future benefits and damages, hyperbolic discounting, the projection and the accessibility influence upon behaviour. The issue of how we going to change it is also explored and the answer is found in the change of the preferences for time (development of orientation to the future and patience) and the perception of strategies for preliminary binding and consistency.

The conclusion summarizes the principles of good "architecture of choice", its distinguishing features and major tools – the implicit options, the simplification and structuring of choices, the putting into frames, the dividing, etc. Evaluation of the relation between behavioural economy and neoclassical pyramid is also given. The main critics and perspectives in the development of the "behavioural policy" are outlined.

The founding works in this field are followed through all this – Daniel Kahneman's "Thinking", Richard Thaler and Cass Sunstein's "Nudge", Dan Ariely's "Predictably Irrational" and "The Influence", "Psychology of Persuasion" and "Pre-suasion" by Robert Cialdini. They are irreplaceable in achieving the main task of the work – to find which are and how to take the correct decisions as well as what to be done in order decisions to be better for both, the decision-makers and the rest. Following the methodology of behavioural economics, the main results from the empiric studies in the field are presented as well as the ones from own inquiry studies.

This work raises the interest of scientists and researchers as well as of everybody, who is engaged in the management processes and looks for decisions, while getting into various situations.

Behavioural economics completes in original way the line of prof. Dimitar Kanev, who is popular for applying traditional economic approaches, which turns him into "attractive" researcher and outlines him for his precision, his exact and clear definition of problems and for the true approaches for their solving.

Himself says: „If you succeed following me through the trip in the labyrinth of behavioural economics, which I offer by the present book, you'd undoubtedly broaden your understandings and you'd find valuable and useful answers. I hope your way to give you also the pleasure I had gotten by it“.

In conclusion, I'd like to emphasize that following one of the prominent Bulgarian minds is not only a pleasure, but also a challenge in this dynamically changing time.



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