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Risk Management and Policy

Behavioral Economics Forum:
Lessons to Strengthen Development Programming and Policy
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Center for the Economic Analysis of Risk

Overview

> **Risk management 101**

> **Ethical policy interventions 101**

> **Lessons**

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Risk management 101

> ## Risk management is all about *ex ante* decisions

- o Informal or formal risk management decisions
- o Not just buying insurance

> ## But evaluation of risk management decision are *ex post*

- o *Ex post* the decision, but *ex ante* the realizations
- o *Ex post* the decision and realizations

> ## So what?

- o Bad economics
- o Bad marketing (Huebner)
- o Bad policy evaluation

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Ethics 101

> ## Do No Harm

- o From the *Hippocratic Oath* to the *Belmont Report*
- o DNH in expectation when it comes to risk management

> ## This must be judged in terms of individual welfare

- o Old-time welfare economics: expected consumer surplus
- o Evaluate the distribution of such effects, not just the average
- o Not the same as social welfare, nor the same as IRB approval

> ## So what?

- o Evidence for **doing harm** when the wrong metrics are used
- o Examples: insurance take-up ≠ welfare benefit when revealed preference not assumed

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Lessons

> **Understand** risk management **decision-making** better

  o Collect basic data to evaluate welfare

  o Risk preferences, time preferences, subjective beliefs

> Read behavioral economics more carefully

  o Full of dodgy science and facile memes

  o Stop referring to "behavioral constraints" *vs*. "economic constraints"

> Focus on distributions of effects, not averages

  o The potential gains are often in the conditional tails

> Focus on **improving the quality of decision-making**, not (just) the quality of interventions

  o Requires that we understand it better

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