

## **Behavioral Economics**

Presenter: Bill Emmons

Federal Reserve Bank of St. Louis

---

The purpose of this discussion group was to help participants understand the financial crisis. Emmons said the global crisis is a result of different sectors taking advantage of people who lacked knowledge, as it relates to financial services decision-making.

### **Summary:**

- Different generations have different views. Generation Y identifies with immediate gratification, whereas those who lived through the Depression believe in saving.
- Bounded rationality: People make choices based on assumptions that conditions will remain the same.
- There was a willingness of the financial sector to take on high risk and not consider worst-case scenarios.
- The population has emerged with a different set of values.
- Economists have not done a good job of helping us understand how we can make better financial choices.

### **Remaining questions and conclusions:**

- Can we help people make better financial decisions by changing the regulatory environment? For example, should employers be required to enroll all employees in the firm's 401K and make the employee choose whether to opt out?
- A high value is placed on taking away personal autonomy or decision-making as it relates to financial choice.
- There is a fear of social engineering.
- Belief in the freedom to fail: Why should businesses that fail and homeowners who make poor choices be bailed out?