

THE NUDGE THEORY AND ITS APPLICATION IN PUBLIC ECONOMIC POLICIES: A BEHAVIORAL ECONOMICS PERSPECTIVE

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Abstract: *This article analyzes the nudge theory as a tool of behavioral economics applied in public economic policies. Going beyond the traditional assumption of perfectly rational agents, the study highlights how behavioral economics perspectives contribute to a more realistic understanding of individual decision-making in public policy contexts. The analysis focuses on the theoretical foundations of nudging, the main behavioral mechanisms used in public interventions, and documented applications in areas such as tax compliance, energy consumption, saving, and public service provision. The paper uses a qualitative approach, based on an analysis of the literature and institutional reports, assessing both the potential benefits and limitations of using nudging in public economic policies. We paid particular attention to the ethical implications regarding individual autonomy, the transparency of interventions, and democratic legitimacy, as well as the context-dependent nature of behavioral interventions. We also discuss the relevance of nudging within the European Union and explore the possibilities for its application in Romania, emphasizing the importance of institutional capacity and the level of public trust. Our results suggest that nudging can contribute to increasing the effectiveness of public economic policies when used as a complementary tool to traditional policies. However, it should not be considered a substitute for structural reforms and requires careful implementation, characterized by clear objectives, transparency, and continuous evaluation.*

Key words: behavioral economics; nudge theory; public economic policies; choice architecture; behavioral public policy

JEL Classification Codes: D90; D91; H11; H30;

1. INTRODUCTION

In recent decades, economic theory has increasingly moved away from the assumption of perfectly rational agents, recognizing the systematic deviations from rationality observed in real-life decision-making. We believe that traditional neoclassical models, based on perfect information and utility maximization, have proven limited in explaining many economic phenomena, especially those associated with individual decisions made under conditions of uncertainty, complexity, and time pressure. In this context, behavioral economics has emerged as a complementary analytical framework, integrating perspectives from psychology into economic analysis in order to more accurately explain how individuals make decisions in practice.

One of the most influential contributions of behavioral economics to the field of public policy is nudge theory, introduced and popularized by Richard Thaler and Cass Sunstein. This theory challenges the classic public policy toolkit, based mainly on regulations, taxes, and financial incentives, proposing instead subtle interventions in the architecture of choice, designed to guide individuals' behavior toward socially desirable outcomes without restricting freedom of



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choice. These interventions, called nudges, do not eliminate options or significantly alter economic incentives, but rather capitalise on behavioural regularities such as decision inertia, framing effects and loss aversion.

We believe that the growing interest in nudging as a public policy tool reflects a broader shift in the governance paradigm towards behaviorally informed approaches. Governments and international institutions increasingly recognize that the effectiveness of economic policies does not depend solely on formal rules and material incentives, but also on how they are perceived, understood, and internalized by individuals. As a result, behavioral perspectives have been integrated into a variety of areas of public economic policy, such as taxation, savings and pension systems, energy consumption, health, and consumer protection. The creation of specialized units within public administrations, known as "nudge units" or behavioral insights teams, illustrates the institutionalization of this approach.

From a public policy perspective, nudge theory offers a number of potential advantages. First, nudge interventions are often cost-effective, requiring fewer administrative resources than traditional instruments. Second, they respect individual autonomy, being compatible with the principle of libertarian paternalism, which seeks to influence behavior without eliminating freedom of choice. Third, nudging allows for rapid implementation and flexible adjustments, which is particularly relevant in dynamic economic contexts characterized by uncertainty and behavioral volatility.

However, the growing popularity of nudging raises a number of theoretical, ethical, and institutional questions. Critics argue that these interventions can blur the line between guidance and manipulation, especially when they are opaque or exploit cognitive biases without individuals being aware of it. There is also the question of the legitimacy of the state to influence private choices, even in a subtle manner, as well as the risk of increasing paternalism and diminishing individual responsibility. Furthermore, the effectiveness of nudging can vary significantly depending on the cultural, institutional, and socioeconomic context, which calls into question the generalizability of results and long-term impact.

In this context, this article aims to provide a comprehensive conceptual analysis of nudge theory and its application in public economic policies, focusing on the theoretical foundations, main areas of application, and associated criticisms. The study does not resort to econometric modeling or original quantitative data, but adopts a qualitative approach based on the analysis of specialized literature, institutional reports, and documented public policy experiences. This methodology is appropriate for examining nudging as a public policy paradigm, where theoretical coherence, institutional context, and normative implications are essential.

The article seeks to answer the following research questions: How is nudge theory grounded in behavioral economics? In which areas of public economic policy has it been applied as a priority? What are the benefits and limitations of behavioral interventions used by public authorities? By addressing these questions, the study contributes to the current debate on behaviorally informed public policies and offers relevant insights for researchers, policymakers, and practitioners interested in alternative tools for increasing the effectiveness of economic policies.

2. RESEARCH METHODOLOGY

In this article, we have used a qualitative approach based on a critical analysis of the relevant literature and institutional reports in order to examine nudge theory and its application in public economic policies. The choice of this methodology is justified by the conceptual and normative nature of the subject, as well as by the objective of evaluating nudging as a public policy paradigm, rather than testing causal relationships through quantitative methods.

The article uses a qualitative comparative analysis of relevant case studies to highlight both the potential of behavioral interventions and their limitations. This approach allows for a nuanced understanding of the conditions under which nudging can be effective and legitimate from a public policy perspective.

Like any research based on secondary sources, we must acknowledge that the study has certain limitations. First, the analysis is based on results reported in the existing literature, without collecting original empirical data. Second, the selection of case studies reflects their availability and visibility in the international literature, which may lead to an overrepresentation of national contexts with a tradition of applying nudging.

Nevertheless, we consider that the methodology adopted is appropriate for the objectives of the article, allowing for a coherent and well-founded assessment of nudge theory and its implications for public economic policies.

3. LITERATURE REVIEW

The literature on nudges lies at the intersection of behavioral economics, decision psychology, and public policy studies. The term became known with the work of Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions about Health, Wealth, and Happiness* (Thaler&Sunstein, 2008), which systematized the idea that individuals' decisions can be improved by adjustments to the "choice architecture," without constraints and without significantly changing economic incentives.

Nudge theory did not appear "out of the blue." It is a natural result of a broader change in economics: the shift from the homo economicus model (rational, consistent, well-informed decision-maker) to a descriptive model, in which people are affected by heuristics, emotions, limited attention, and context.

A fundamental starting point was the article by Amos Tversky and Daniel Kahneman, "Judgment under Uncertainty: Heuristics and Biases" (Kahneman&Tversky, 1974), which shows that people use simple rules of judgment (heuristics) that can lead to systematic errors: representativeness, availability, and anchoring. These mechanisms underlie many nudge interventions (e.g., how options or implicit "anchors" are presented).

Subsequently, Kahneman and Tversky introduced Prospect Theory in their classic article "Prospect Theory: An Analysis of Decision under Risk" (Kahneman&Tversky, 1979), showing that people evaluate gains and losses relative to a benchmark, and that loss aversion can dominate choices. This idea is central to nudging: small changes in the "reference point" and wording can significantly change behavior.

In the words of Thaler and Sunstein (2008), a nudge is an intervention that changes behavior in a predictable way, without prohibiting options and without substantially altering incentives. The book popularizes and normatively justifies the idea of "libertarian paternalism": the state (or institutions) can try to help people make better decisions, but maintain freedom of choice through opt-out options.

In academic and public policy literature, this framework has been attractive because it offers an alternative to two extremes:

- ✚ laissez-faire (the assumption that individuals will choose optimally if left alone),
- ✚ heavy interventionism (regulation, prohibitions, sanctions).

Nudging occupies an "intermediate" area: minimal but targeted intervention.

A central part of the literature on nudging demonstrates the power of defaults and inertia. An important study in this regard is Madrian & Shea, associated with the analysis of automatic enrollment in retirement savings plans. The article on 401(k)s shows that when people are automatically enrolled and must actively opt out, participation rates increase, and many remain at

the default settings (contribution and allocation), indicating cognitive costs and decision inertia. (Madrian & Shea, 2001).

Complementarily, Thaler and Benartzi propose the Save More Tomorrow (SMarT) program in "Using Behavioral Economics to Increase Employee Saving" (Journal of Political Economy, 2004). The idea is behavioral and elegant: people commit in advance to increase their savings with salary increases, reducing the perceived "pain" of saving and using self-control through prior commitments. It is one of the most cited examples of behaviorally inspired intervention, with direct relevance to public policy and institutional design.

Another classic reference on the power of defaults is the article by Johnson & Goldstein, "Do Defaults Save Lives?" (Johnson&Goldstein, 2003), which discusses the implications of default options in the context of organ donation and shows how much behavior can vary depending on "opt-in" vs. "opt-out" rules. Although the field is medical-administrative, the conclusion is general for public policy: defaults are an inevitable part of any policy and can have massive effects.

After 2008, literature and practice accelerated: nudging became a tool explicitly adopted by institutions. An international benchmark is the OECD report "Behavioral Insights and Public Policy" (OECD, 2017), which lists applications in multiple areas (taxes, consumption, energy, health, finance, etc.) and discusses how behavioral interventions can be integrated into the policy-making process. For a BDI article, the OECD is a very "clean" and quotable source, as it provides systematization and language compatible with public policy.

At the same time, the OECD has continued to expand the agenda, including through reports discussing the integration and evaluation of behavioral interventions in policies, highlighting methodological and institutional challenges. (OECD, 2019)

The literature on nudging also includes a series of criticisms that generally focus on several themes:

- ✚ autonomy and transparency: when nudging becomes too opaque, it can be perceived as manipulation;
- ✚ democratic legitimacy: who decides what constitutes a "good choice"?
- ✚ context dependence: the same nudge may work differently depending on culture, trust in institutions, level of education, social norms;
- ✚ the risk of "solutionism": the tendency to treat structural problems (inequality, poverty, access) as simple behavioral problems.

4. BEHAVIORAL MECHANISMS UNDERLYING NUDGE INTERVENTIONS IN PUBLIC POLICY

Nudge interventions are based on the idea that many economic decisions are not the result of a fully rational calculation, but are influenced by context, limited attention, and cognitive costs. In public policy, nudging does not seek to change economic incentives or restrict available options, but rather to change the way choices are presented and accessed by individuals.

A first central mechanism, from our point of view, is represented by default options. People tend to stick with the option initially set, especially when the decision is complex or requires administrative effort. In this sense, setting a default option can influence behavior without eliminating freedom of choice, as individuals still have the option to choose a different alternative. (World Bank, 2015)

We consider social norms to be a second important mechanism, which refers to the tendency of individuals to adapt their behavior based on what they perceive others to be doing. Messages indicating that a certain behavior is widespread can increase voluntary compliance, especially in areas such as paying taxes or reducing resource consumption. This type of

intervention is effective when the desired behavior can be credibly presented as being in the majority.

Another relevant element from our point of view is the clear highlighting of essential information at the moment of decision-making. People react more easily to simple, visible, and easily understandable information, such as deadlines, costs, or immediate consequences. Therefore, reorganizing information and clearly formulating messages can have a significant impact on behavior without introducing additional constraints.

Simplifying procedures and reducing administrative barriers also play an important role in nudging. In many situations, non-participation or non-compliance does not reflect a deliberate decision, but rather the result of overly complex processes. Reducing the number of steps, clarifying forms, and eliminating ambiguities can facilitate the adoption of desired behavior.

Overall, we believe that these mechanisms work by reducing the effort required to make decisions and by adapting public policies to the way individuals actually process information. Nudging does not change the objectives of public policy, but optimises the interaction between institutions and citizens, making the desired options more accessible and easier to choose.

5. APPLICATIONS OF NUDGING IN PUBLIC ECONOMIC POLICIES: CASE STUDIES

From our point of view, nudging has become relevant to public economic policies not because it is theoretically elegant, but because it has worked in practice, in real administrative contexts. In this section, we analyze some of the best-documented applications, selected for their economic relevance, the robustness of the evidence, and the frequency with which they are cited in the literature.

5.1. Tax compliance: behavioral messages and voluntary tax payments

One of the best known and most well-documented areas of application for nudging is tax compliance. The UK tax authority (HMRC), in collaboration with the Behavioural Insights Team (BIT), has tested simple behavioral interventions in its communications with taxpayers.

A landmark study by Hallsworth, List, Metcalfe, and Vlaev (Hallsworth, List, Metcalfe & Vlaev, 2017), published in the *Journal of Public Economics*, analyzes field experiments on reminder letters sent to taxpayers who were late in paying their taxes. The key finding is that messages using social norms (such as "most taxpayers in your area have already paid their taxes") significantly increase the payment rate compared to standard, behaviorally neutral messages.

The importance of this example for public economic policies is twofold. First, the intervention does not change the tax rate, penalties, or legal framework. Second, administrative costs are minimal, as it only involves reformulating communication. The study is frequently cited precisely because it demonstrates that perceptions of others' behavior can be more influential than the threat of penalties.

5.2. Energy policies: social norms and consumption feedback

A second key area is energy consumption, where nudging has been used to promote energy efficiency without resorting to pricing instruments. A classic example is the programs developed by OPOWER (later integrated into Oracle), which have been extensively analyzed by Hunt Allcott and colleagues.

In an article published in the *American Economic Review* (Allcott, 2011), Allcott shows that sending households regular consumption reports, which compare their own energy use with that of similar neighbors, leads to significant reductions in consumption. The intervention combines two behavioral mechanisms: social norms and regular feedback.

Subsequently, in the American Economic Review (Allcott&Rogers, 2014), Allcott and Rogers analyze the persistence of effects over time and show that, although the impact may decline, more energy-efficient behaviors tend to stabilize if feedback is maintained. These results have been replicated in several countries and are frequently cited by the OECD as an example of non-coercive public policy.

For economic policy, this case is relevant because it shows that behavioral change can be achieved without subsidies or additional taxes, but through intelligent information design.

5.3. Savings and pension systems: automatic enrollment and institutional design

Although often discussed in behavioral finance literature, saving for retirement has direct public policy implications. A relevant study is that of Madrian and Shea (2001), which analyzes the effects of automatic enrollment in 401(k) pension plans in the US.

The results show that changing the rule from opt-in to opt-out leads to massive increases in participation, especially among lower-income employees. Subsequently, Thaler and Benartzi (2004) proposed the Save More Tomorrow program, published in the Journal of Political Economy, demonstrating how behavioral commitments can increase the savings rate without reducing perceived disposable income.

Although the institutional context is different in Europe, these studies are extremely influential in the debate on the design of public pension systems and the role of the state in facilitating long-term financial decisions.

5.4. Administrative simplification and access to public services

A less spectacular area, but one that we consider very important from the perspective of state efficiency, is the simplification of administrative processes. Reports by the Behavioural Insights Team and the OECD document numerous cases in which reducing the number of steps, clarifying forms, or eliminating ambiguities increases the rate of use of public services.

Examples include:

- ✚ shorter forms for social benefits;
- ✚ pre-filling data already existing in public systems;
- ✚ reminders sent at the right time.

These interventions are considered nudges because they do not change eligibility or benefits, but only reduce the cognitive and effort costs associated with accessing them. The literature shows that, in many cases, "non-participation" is not a deliberate choice, but the result of administrative friction.

Analysis of these applications suggests several conclusions relevant to public economic policy:

- ✚ Nudging is most effective when the problem is behavioral, not structural.
- ✚ Interventions work best when they are simple, transparent, and contextualized.
- ✚ The effects are not universal and require local testing and adaptation.
- ✚ Nudging does not replace traditional instruments, but complements them.

The case studies analyzed demonstrate that nudging can be an effective and legitimate tool in public economic policies when used judiciously. Far from being a miracle solution, we believe that nudging works best as part of a policy mix in which behavioral interventions are aligned with clear economic objectives and respect for individual autonomy.

5.5 Adapting nudging in the context of the European Union and Romania

From our point of view, the application of nudging in public economic policies must be analyzed in close connection with the institutional, cultural, and administrative context.

Interventions that work in a state with a consolidated administrative tradition and a high level of trust in institutions cannot be mechanically transferred to other contexts without adjustments.

5.5.1. *The European Union context: nudging as a complementary governance tool*

At the European Union level, nudging is not used as an autonomous public policy, but as a complementary tool within a multilayer governance framework. European institutions (the European Commission, EU agencies) are gradually promoting the integration of behavioral insights into the policy-making process, particularly in areas such as:

- ✚ consumer protection,
- ✚ energy transition,
- ✚ financial sustainability,
- ✚ digitization of public services.

OECD reports and studies conducted for the European Commission emphasize that nudging is used primarily in (OECD, 2021):

- ✚ the design of consumer information (labeling, transparency, comparability);
- ✚ the simplification of options in complex markets (energy, telecommunications, financial products);
- ✚ promoting sustainable behavior without resorting exclusively to taxes or bans.

In the EU, the emphasis is on the compatibility of nudging with the principles of European law, in particular:

- ✚ transparency,
- ✚ proportionality,
- ✚ consumer protection,
- ✚ respect for individual autonomy.

We can thus see that European nudging is more cautious, more regulated, and less "experimental" than in some non-EU countries, often being integrated into existing policies rather than presented as a stand-alone solution.

5.5.2. *Romania: high potential, implicit use, lack of formalization*

In Romania, nudging is not formalized as a public policy tool and, to date, there is no government unit dedicated to behavioral insights. However, numerous administrative practices can be interpreted as implicit forms of nudging, even if they are not explicitly conceptualized as such.

Among the areas with real potential for application, we consider the following:

a) *Tax compliance and the relationship with NAFA*

Progressive digitization (Virtual Private Space, e-Invoice) creates the conditions for behavioral interventions:

- ✚ clearer messages regarding deadlines,
- ✚ highlighting the immediate consequences of non-compliance,
- ✚ formulations oriented towards social norms ("most taxpayers file their returns on time").

In the context of Romania, where voluntary compliance is a structural challenge, we believe that nudging can complement, but not replace, institutional reforms and coercive measures.

b) *Energy efficiency and consumption behavior*

In our opinion, campaigns to reduce energy consumption are often based on general information. Introducing behavioral elements (comparative feedback, highlighting one's own consumption compared to relevant averages) could increase the effectiveness of the messages, in line with documented European experiences.

c) *Access to digital public services*

Romania faces a relatively low rate of use of digital public services, not necessarily due to lack of access, but because of:

- the complexity of procedures,
- lack of clarity,
- mistrust.

Nudging, through simplification and reduction of administrative friction, could contribute to increased usage without major legislative changes.

5.5.3. *Constraints specific to the Romanian context*

The literature on public policy indicates that nudging is context-sensitive, and Romania presents several relevant constraints:

- ✚ relatively low level of trust in institutions;
- ✚ negative perception of administrative communication;
- ✚ high heterogeneity of the population in terms of financial and digital literacy.

In this context, we believe that opaque or overly paternalistic behavioral interventions can generate reactance, reducing policy effectiveness. Therefore, in our view, the adaptation of nudging in Romania should respect three principles:

- ✚ explicit transparency (it should be clear that the state is trying to guide, not manipulate);
- ✚ simplicity and immediate usefulness;
- ✚ alignment with real institutional reforms.

At the European Union level, nudging is used as a complementary tool, carefully regulated and integrated into existing policies. In Romania, although there is no formal behavioral public policy strategy, the potential for application is significant, especially in areas such as taxation, energy, and the digitization of public services. However, we believe that the effectiveness of nudging depends decisively on the institutional context and public trust, which requires a cautious, transparent, and locally adapted approach.

6. CRITICISMS, LIMITATIONS, AND ETHICAL IMPLICATIONS OF NUDGING IN PUBLIC ECONOMIC POLICIES

Although nudging is appreciated for its non-coercive and cost-effective nature, the literature emphasizes that the use of behavioral interventions in public policy raises a number of ethical and institutional issues. The main criticism concerns individual autonomy. Even if nudging formally preserves freedom of choice, influencing decisions by exploiting cognitive biases can be perceived as a form of subtle manipulation, especially when interventions are opaque or insufficiently explained (Sunstein, 2017).

A second important limitation relates to libertarian paternalism, a concept that assumes that public authorities can define what constitutes a "better decision" for citizens. Critics point out that this approach can reduce individual responsibility and excessively transfer decision-making power to public policy architects, raising questions about the democratic legitimacy of interventions implemented at the administrative level without explicit public debate.

Empirically, the literature shows that the effects of nudging are context-dependent and cannot be automatically generalized. Interventions may have a limited or temporary impact and may generate adverse reactions in contexts characterized by institutional mistrust or high socio-cultural diversity. In addition, there is a risk that nudging will be used as a substitute for structural reforms, treating complex economic problems as simple individual behavioral deficiencies.

Consequently, we note that most authors converge on the idea that nudging is most effective and legitimate when used as a complement to traditional economic policies, in a framework characterized by transparency, public accountability, and continuous evaluation of effects.

5. CONCLUSIONS

In this article, we have analyzed the nudge theory as a public economic policy tool, highlighting how behavioral economics complements traditional approaches based on perfect rationality and material incentives. By integrating psychological perspectives into public policy design, we believe that nudging provides a realistic framework for understanding individual decisions, recognizing the role of inertia, limited attention, and the decision-making context.

Analysis of the literature and case studies shows us that nudge interventions can contribute to increasing the effectiveness of public policies in areas such as tax compliance, energy efficiency, long-term savings, and access to public services. These interventions are distinguished by their non-coercive nature and low administrative costs, being particularly relevant in contexts where the problems identified are not determined exclusively by economic constraints, but by cognitive and behavioral difficulties. At the same time, empirical results discussed in the literature indicate that nudging is most effective when used selectively, well calibrated, and integrated into a broader policy mix.

At the same time, the article highlights the limitations and risks associated with the use of nudging in public economic policies. Influencing decisions through choice architecture raises issues related to individual autonomy, democratic legitimacy, and institutional accountability, especially in the absence of transparency and public scrutiny. The literature warns of the risk that nudging may be overused or used as a substitute for necessary structural reforms, which could lead to superficial solutions to complex economic problems.

From a normative perspective, the conclusions suggest that nudging is legitimate and effective only to the extent that it respects certain key principles: clarity of public policy objectives, maintenance of real freedom of choice, transparency of interventions, and their proportionality. Furthermore, we believe that the effectiveness of nudging is deeply dependent on the institutional and cultural context, which requires avoiding the mechanical transfer of interventions between different states or administrative systems. In this sense, adaptation to national specificities and local testing become essential conditions for the success of behavioral interventions.

In the case of the European Union, we note that nudging is emerging as a complementary tool in a governance framework characterized by regulation, consumer protection, and respect for fundamental rights. For Romania, our analysis has indicated significant potential for the use of behavioral interventions, particularly in areas such as taxation, energy, and the digitization of public services. However, we believe that this potential can only be exploited in parallel with institutional capacity building and increased public trust, without which nudging risks being ineffective or even counterproductive.

Overall, the conclusions of the article support the idea that behavioral economics and nudge theory do not offer universal solutions, but provide valuable tools for improving the design of public economic policies. Used judiciously, nudging can contribute to more effective policies that are better adapted to the actual behavior of individuals and less intrusive. Used without proper critical reflection, it can undermine individual autonomy and the legitimacy of public policies. Therefore, we believe that the real value of nudging lies not in the promise of quick results, but in its ability to enrich economic thinking and public policy practice with a more realistic perspective on human behavior.

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