

# Behavioral Economics

## Tutorial 9

Designing Policies for Changing the  
Behaviour of Students and  
Employees

# Task 1: Reducing 'Attrition Rates' at UQ

In small groups consider what potential policies you can derive, **using material covered in this course**, for managers of the university to use in:

- Reducing the extent to which students take far longer than necessary to complete their degrees, due to bailing out of courses (or exams) when the going gets tough and then having to re-take courses (or take other courses) in later semesters
- Reducing the incidence of failures to graduate due to giving up studies rather than repeatedly failing compulsory courses

# Remember:

- Everything that your group proposes when reporting back to the full group should be applying an idea covered earlier in this course
- Suggestions based on introspection should not be made: if introspection throws up ideas, they need to be considered for whether they would seem worthwhile from the standpoint of anything we have been covering

# Task 2 (if there is time): Improving output quality and productivity

- Imagine your team has been hired by a struggling US manufacturer of premium-quality guitars to devise ways to reduce quality inconsistencies (especially with accuracy of fret installation and finishing, poor application of some of the many coating layers, minor blemishes from careless handling during the production process)
- These inconsistencies harm the brand's reputation if less-than-perfect instruments go from factory to retailers, or impose major rectification costs if the problems are discovered at the quality check stage when the guitars are packed
- In some cases, rectification is so costly that the instrument is written off
- Does behavioural economics provide any insights that can be applied in this context?

# A bit of background to think about

- The problems arise in assembly, finishing, coating and handling, for machining of wooden components is done using state-of-the-art computer-numerically-controlled (CNC) equipment: thus it's all about attention to detail, not shortcomings of machinery
- In the process of putting all the parts together and turning them into a completed, finished guitar with many layers of coating, a perfect playing action and working electronics, several dozen worker each play their specialized role before passing the product to the next person along the line: thus it's a bit like a car assembly line despite involving lots of gluing, sanding and lacquering. However, it doesn't involve a moving assembly line that determines the pace at which work has to be done.

# A real example (1)

- Task 2 was inspired by the case of Gibson Guitars, whose parent firm filed for Chapter 11 Bankruptcy in 2018.
- Amongst the things the new CEO James 'JC' Curleigh (who is former head of Levi jeans) has done are:
  - Having a much better lighting system installed in the factory
  - Cutting in half the number of workers who handle each instrument (which reduces task specialization but gives workers more variety, even if the extra tasks are pretty similar to what they have done hitherto, not ones that required them to have training; there's scope here for having rival teams, due to the lack of a single assembly line – as well as reducing the number of 'relay points' in the production system)
  - Making workers at each stage take responsibility for the quality of what they pass along to subsequent stages, so that guitars with problems do not arrive at a single inspection point at the end of the production process; if something has gone badly wrong, writing off the work that has been done is less costly, as is fixing the problem, if the latter is possible)

# A real example (2)

- Much of this could be viewed in terms of ensuring that workers can and do give their attention to what they are doing, have pride in what they do and are given more responsibility for quality
- Could 'nudges' be employed to make this turnaround strategy even more effective? (In a sense, the new quality check system replaces a system that could lead to sunk cost bias for the system as a whole.)
- Interestingly, another area of focus has been with the ranges of products offered, so that buyers are clearer on which models adhere to the heritage values that the firm's reputation was based on, and which models are ones that feature innovations, for product proliferation, combined with misconstruing of how customers would see particular model tags, was causing considerable confusion.