

# Behavioral Biases in Peru



Very little evidence from behavioral economic research exists from low-income countries, as most such research has taken place in Western industrialized countries. The World Bank's 2015 World Development Report: Mind and Society focuses on psychological, social, and cultural influences on development, requiring the collection and analysis of data on psychological biases in non-industrialized countries. IPA was responsible for data collection for the report in Peru.

## Policy Issue

Traditional micro- and macro-economic approaches reveal that factors such as prices, investments, and regulation often drive decision-making. Behavioral economists offer a more nuanced view of decision-making, applying psychological insights to human behavior, which may help policymakers understand why people do the things they do—and, in turn, help them formulate policies that work. A large body of research from lab experiments and from government entities like the U.K.'s Behavioral Insights Team have shed light on people's psychological biases, helping to improve policy designs in many Western countries. Evidence suggests, for example, that people evaluate alternatives quickly based on what first comes to mind and often rely more on intuition than on careful analysis; that people use mental models which are rooted in culture and provide default assumptions about objects, subjects or events; and that people are motivated by social emotions and norms. However, most empirical evidence in behavioral economics comes from samples of Western, industrialized, democratic countries, and there is very little data available from low-income countries that can tell us which biases hold in the context of non-industrialized countries.



### RESEARCHERS

Alaka Holla, Renos Vakis

### COUNTRY

Peru

### PARTNER

World Bank

### PROGRAM AREA

### TOPIC

Behavioral Design

### TIMELINE

2014

## Evaluation Context

The World Bank's World Development Report (WDR) is an annual publication that focuses on development economics. Each year, the report focuses on a specific aspect of development. The 2015 WDR: Mind and Society, focuses on psychological, social, and cultural influences on development; more specifically collecting and analyzing data on psychological biases in non-industrialized countries. The report team conducted a series of surveys in countries around the world, including Peru, to generate data to assess the general applicability of behavioral economics to problems of development.

## Details of the Intervention

IPA was responsible for data collection in Peru for the World Bank's 2015 World Development Report: Mind and Society. This involved carrying out 90-minute structured interviews and administering two cognitive tests to 618 participants among a representative sample of households of different socio-economic status in Lima over a three-month period in 2014. The interview questions related to everyday topics such as sending a child to secondary school, taking out a loan, and adhering to medical treatment plans. From their responses, data was collected on what factors—careful analysis, present bias, loss aversion, social norms, and so on—drive respondents' decisions.

While much of the interview was conducted like a standard household survey, it featured two modifications. First, some questions were randomly assigned to participants to ensure that the difference in responses could be separated from variation in individual-level characteristics, such as income, education, or family size. Second, the survey included two cognitive tests. The purpose of the tests was to provide insight into how poverty and scarcity influence decision-making. The cognitive tests took place after respondents were asked to think hypothetically about a difficult economic situation happening in their households. This test aimed to replicate an earlier experiment that revealed that poverty hinders cognitive function.<sup>1</sup>

## Results and Policy Lessons

Results forthcoming.

## Sources

[1] Mani, Anandi, Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao. "Poverty impedes cognitive function." *science* 341, no. 6149 (2013): 976-980.

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### GLOBAL HEADQUARTERS

101 Whitney Avenue  
New Haven, CT 06510 USA  
+1 203.772.2216 | [contact@poverty-action.org](mailto:contact@poverty-action.org)

**poverty-action.org**